

Cornerstone OnDemand Inc
Form 10-K
February 26, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 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: 001-35098

Cornerstone OnDemand, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

1601 Cloverfield Blvd.
Santa Monica, California 90404

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (310) 752-0200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.0001 per share

13-4068197
(I.R.S. Employer Identification Number)

Name of each exchange on which registered
NASDAQ Stock Market LLC

(NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes No

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

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

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant, as of June 30, 2013, the last day of registrant's most recently completed second fiscal quarter, was \$1,462,792,729 (based on the closing price for shares of the registrant's common stock as reported by the NASDAQ Global Market for the last business day prior to that date).

On February 21, 2014, 52,801,166 shares of the registrant's common stock, \$0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Form 10-K are hereby incorporated by reference from the definitive Proxy Statement for our annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2013.

CORNERSTONE ONDEMAND, INC.
 2013 ANNUAL REPORT ON FORM 10-K
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TRADEMARKS

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, statements regarding our business strategies; anticipated future operating results and operating expenses; our ability to attract new clients to enter into subscriptions for our solutions; our ability to service those clients effectively and induce them to renew and upgrade their deployments of our solutions; our ability to expand our sales organization to address effectively the new industries, geographies and types of organizations we intend to target; our ability to accurately forecast revenue and appropriately plan our expenses; market acceptance of enhanced solutions; alternate ways of addressing talent management needs or new technologies generally by us and our competitors; continued acceptance of SaaS as an effective method for delivering talent management solutions and other business management applications; the attraction and retention of qualified employees and key personnel; our ability to protect and defend our intellectual property; costs associated with defending intellectual property infringement and other claims; events in the markets for our solutions and alternatives to our solutions, as well as in the United States and global markets generally; future regulatory, judicial and legislative changes in our industry; and changes in the competitive environment in our industry and the markets in which we operate. In addition, forward-looking statements also consist of statements involving trend analyses and statements including such words as “may,” “believe,” “could,” “anticipate,” “would,” “might,” “plan,” “expect,” and similar expressions or the negative of such terms or other comparable terminology. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part I, Item 1A, “Risk Factors,” and in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

Item 1. Business

Overview

Cornerstone OnDemand, Inc. was incorporated on May 24, 1999 in the state of Delaware and began its principal operations in November 1999. Unless the context requires otherwise, the words “Cornerstone,” “we,” “Company,” “us” and “our” refer to Cornerstone OnDemand, Inc. and its wholly owned subsidiaries.

Cornerstone is a leading global provider of comprehensive talent management solutions delivered as Software-as-a-Service (“SaaS”). Our solutions are designed to enable organizations to meet the challenges they face in empowering and maximizing the productivity of their human capital. These challenges include hiring and developing employees throughout their careers, engaging all employees effectively, improving business execution, cultivating future leaders, and integrating with an organization’s extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content. As of December 31, 2013, 1,631 clients used our core solution to empower more than 14 million users across 191 countries and 41 languages.

Our core solution, which serves enterprise and mid-market organizations, is a comprehensive and integrated cloud-based suite that delivers the following benefits:

• **Comprehensive Functionality.** Our suite consists of four clouds that address all stages of the employee lifecycle. These clouds include our Recruiting Cloud, Learning Cloud, Performance Cloud, and Extended Enterprise Cloud.

• **Flexible and Highly Configurable.** Clients can match the use of our software with their specific business processes and workflows. The flexibility of our suite allows our clients to deploy the four clouds individually or in any combination.

• **Easy-to-Use, Personalized User Interface.** Our suite employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the suite.

• **Software-as-a-Service Model Lowers the Total Cost of Ownership and Speeds Delivery.** Our suite is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware, and consulting services that are typical of hosted or on-premise software solutions.

Scalable to Meet the Needs of All Organizations. We have built a highly scalable, multi-tenant, multi-user architecture that supports the complex needs of global corporations yet is capable of supporting deployments of any size. We currently support multiple client deployments of over 150,000 users, including a few clients with over 350,000 users.

Continued Innovation through Collaborative Product Development. The vast majority of our thousands of software features were designed in collaboration with existing and prospective clients based on their specific functional requests.

In addition to our core solution, we offer Cornerstone for Small Business, or CSB, and Cornerstone for Salesforce. CSB is a talent management solution serving organizations with fewer than 400 employees. Cornerstone for Salesforce is a learning application developed natively on the Salesforce.com platform which allows organizations to provide seamless access to sales enablement and just-in-time training from within Salesforce.

Our clients include multi-national corporations, large domestic enterprises, mid-market companies, public sector organizations, higher education institutions, and non-profit entities, such as Advantage Sales & Marketing LLC, American International Group, Inc., Barclays Bank PLC, BMW AG, Carlson Restaurants Worldwide, Inc., Flextronics International, Kaplan Higher Education Corporation, McKesson Corporation, Starwood Hotels & Resorts Worldwide Inc., Teach for America, Inc., Turner Broadcasting System, Inc., U.S. Department of the Treasury, and Walgreen Co. While most of our deployments encompass most, or even all employees at a given client, some also include the employees of the extended enterprise of that client, such as employees of the client's customers, vendors and distributors.

We sell our solutions domestically and internationally through both direct and indirect channels, including direct sales teams throughout North and South America, Europe, and Asia-Pacific and distributor relationships with payroll, consulting and human resource, or HR, services companies.

We generally sell our solutions with multi-year agreements based on the number of employees. Clients generally are invoiced the consulting fees and the first year of the annual subscription fees upon contract execution. For amounts not invoiced in advance for multi-year subscriptions and consulting services, we invoice under various terms over the subscription period.

We have grown our business each of the last 12 years, and since 2002, we have averaged approximately 95% annual dollar retention rate, as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Metrics." Since 2001, our implied monthly recurring revenue from existing clients has been greater at the end of each year than at the beginning of the year. Our revenue has grown to \$185.1 million in 2013 from \$117.9 million in 2012 and from \$73.0 million in 2011.

The Market

Human capital is a major expense for all organizations. Based on the U.S. Bureau of Labor Statistics data as of September 2013, total compensation paid to the United States civilian workforce of approximately 155.6 million people was expected to exceed \$10 trillion in 2013.

Accordingly, organizations have long sought to optimize their investments in human capital. We believe that organizations face six major challenges in maximizing the productivity of their internal and external human capital: Acquiring Talent. Increasingly seeking to fill open positions by recruiting internally and by leveraging the external networks of their employees, corporate recruiting has evolved from a process that was principally driven by traditional sources such as inbound resume submissions and job board postings to one that is inherently social in nature.

Developing Talent. Effectively orienting new hires and training employees throughout their careers to achieve their full potential, which has become more difficult with the Millennial generation entering the workforce, increasingly distributed workforces and heightened compliance requirements.

Engaging Employees. Connecting with employees at all levels and locations of the organization to keep them motivated, which has become more difficult with the rise of globalization and telecommuting.

Improving Business Execution. Ensuring the effective alignment of employee behavior with the organization's objectives through goal management and employee assessment and development, as well as by linking compensation to performance.

Building a Leadership Pipeline. Identifying, grooming and retaining individuals for leadership positions at all levels and across all parts of the organization, which has become an acute challenge with the growing mobility and turnover of employees and the impending retirements of the Baby Boomers.

Integrating with the Extended Enterprise of Customers, Vendors and Distributors. Delivering training, certification programs and resources to the organization's network of customers, vendors, distributors and other third parties that constitute the organization's extended enterprise, which has become more difficult with the rise of outsourcing and

increasing globalization.

Until the advent of software technology in the 1970's, written tracking systems were the only solution available for managing human capital. Software-based solutions such as spreadsheet-based tracking systems, custom-built software

applications, third-party human resource information systems and third-party software applications provided by on-premise software vendors gradually became available. We refer to all of these approaches as hosted or on-premise solutions.

More recently, SaaS vendors dedicated to providing talent management software have emerged. We believe that just as organizations are increasingly choosing SaaS solutions for business applications such as sales force management, they are also increasingly adopting SaaS talent management solutions.

Many of the existing solutions suffer from one or more of the following shortcomings:

Narrow Functionality. As they only address specific stages of the employee lifecycle, many solutions lack sufficient breadth of functionality to maximize employee productivity effectively.

Limited Configurability. Most solutions are rigid and limit the ability of organizations to match their diverse workflows or to adopt their desired talent management practices.

Difficult to Use. Inputting, updating, analyzing and sharing information is often cumbersome, resulting in low employee adoption and usage.

Costly to Deploy, Maintain and Upgrade. Hosted or on-premise solutions require significant expense and time to deploy as well as require ongoing costs associated with IT support, network infrastructure, maintenance and upgrades.

Inability to Scale. Many solutions are designed to support the needs of smaller organizations and have difficulty meeting the complex functional requirements or the sizeable infrastructure demands of larger enterprises.

Given the limitations of existing offerings, we believe there is a market opportunity for comprehensive, integrated solutions that help organizations manage all aspects of their internal and external human capital and link talent management to their business strategy.

The Cornerstone OnDemand Answer

Our core solution is a comprehensive SaaS suite that consists of four integrated clouds for recruiting, learning management, performance management and extended enterprise.

Our suite includes a number of cross-cloud tools for talent management analytics and reporting, employee profile management, and e-learning content aggregation and delivery. We also provide consulting services for configuration, integration and training for our suite. We believe that our core solution delivers the following benefits:

Comprehensive Functionality. Our suite provides a comprehensive approach to talent management by offering four integrated clouds to address all stages of the employee lifecycle: recruiting, learning management, performance management and extended enterprise. Employees use our core solution throughout their careers to engage in performance processes such as goal management, performance reviews, competency assessments and compensatory reviews; to complete job-specific and compliance-related training; to evaluate potential career changes, development plans or succession processes; and to connect with co-workers by leveraging enterprise social networking tools.

Our clients can manage processes that span different talent management functions because our four clouds are tightly integrated. For example, our clients can automatically identify skill gaps as part of an employee's performance review, assign training to address those gaps and monitor the results of that training. Also, clients can identify high potential employees for future leadership positions and place them in executive development programs.

We believe our comprehensive, integrated suite allows our clients to align their talent management processes and practices with their broader strategic goals.

Flexible and Highly Configurable. Our suite offers substantial configurability that allows our clients to match the use of our software with most of their specific business processes and workflows. Our clients can configure our suite by business unit, division, department, region, location, job position, pay grade, cost center, or self-defined organizational unit. Our clients are able to adjust features to configure specific processes, such as performance review workflows or training approvals, to match their existing or desired practices. This high level of configurability means that custom coding projects generally are not required to meet the diverse needs of our clients.

Our clients can deploy the four clouds individually or in any combination. As a result, our clients have the flexibility to purchase solely those clouds that solve their immediate talent management needs and can incrementally deploy additional clouds in the future as their needs evolve.

Easy-to-Use, Personalized User Interface. Our suite employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the solution. This ease of use limits the need for end-user training, which we believe increases user adoption rates and usage. While we typically train administrators, we have never been asked to conduct end-user training.

Software-as-a-Service Solution Lowers the Total Cost of Ownership and Speeds Delivery. Our suite is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware, and consulting that are typical of hosted or on-premise solutions. With a single code base to maintain, we are able to release improved functionality on a quarterly basis. This is a more rapid pace than most hosted or on-premise solution providers can afford to deliver.

Scalable to Meet the Needs of Organizations. Our suite has been used by Fortune 100 companies since 2001. While the complex needs of these global corporations required us to build a solution that can scale to support large, geographically-distributed employee bases, our suite is capable of supporting deployments of any size. Today we service 14 multi-national corporations with over 150,000 active users each. Our largest deployment is for over 350,000 users and our smallest is for 2 users.

Continued Innovation through Collaborative Product Development. We work collaboratively with our clients on an ongoing basis to develop almost every part of our suite. The vast majority of our thousands of software features were designed with existing and prospective clients based on their specific functional requests.

In addition to our core solution, we offer Cornerstone Small Business, or CSB, and Cornerstone for Salesforce. CSB is a talent management solution generally serving organizations with fewer than 400 employees. Cornerstone for Salesforce is a learning application developed natively on the Salesforce.com platform which allows organizations to provide seamless access to sales enablement and just-in-time training from within the Salesforce.com platform.

Our Strategy

Our goal is to empower people, organizations, and communities with our comprehensive talent management solutions.

Key elements of our strategy include:

Retain and Expand Business with Existing Clients. We believe our existing installed base of clients offers a substantial opportunity for growth.

Focus on Client Success, Retention and Growth. We believe focusing on our clients' success will lead to our own success. We have developed a Client Success Framework that governs our operational model. Since 2002, we have averaged approximately 95% annual dollar retention rate. We strive to maintain our strong retention rates by continuing to provide our clients with high levels of service and support and increasing functionality.

Sell Additional Clouds to Existing Clients. We believe there is a significant growth opportunity in selling additional functionality to our existing clients. Many clients have added functionality subsequent to their initial deployments as they recognize the benefits of our comprehensive suite, and as a result, approximately half of our clients today utilize the equivalent of two or more clouds. Still, we believe significant upsell opportunity remains within our existing client base. Not only is our goal to sell these clients additional clouds and services, but we also believe there is an opportunity to sell many of them higher-level packages within the clouds they have already purchased.

Strengthen Current Sales Channels. We intend to increase our investments in both direct and indirect sales channels to acquire new clients.

Invest in Direct Sales in North America. We believe that the market for talent management is large and remains significantly underpenetrated. As a result, we plan to continue to grow both our enterprise and mid-market direct sales teams.

Expand and Strengthen Our Alliances. We intend to grow our distribution channels through key alliances, including agreements with global vendors such as Appirio, Inc., Automatic Data Processing, Inc., Ellucian Company L.P., Tribridge, Workday, Inc., and Xerox Corporation (formerly Affiliated Computer Services, Inc.), as well as the continued expansion of our regional relationships with distributors like CDP Group, Limited (China), Comms Learning Limited (United Kingdom), Grupo Datamace (Brazil), Infosys Limited (India), ISQ eLearning (Portugal), Kalleo Learning (South Africa), Logica plc (Europe), Neoris de Mexico, S.A. de C.V. (Mexico), Neospheres SAS (France), QA Limited (United Kingdom), Sage Software, Inc. (North America), T2 Optimise PTY Ltd. (Asia Pacific), Talentech (Israel) and Xchanging HR Services Limited (United Kingdom).

Significantly Grow Our International Operation. We believe a substantial opportunity exists to continue to grow sales of our solutions internationally. We intend to grow our Europe, Middle-East and Africa, or EMEA, and Latin America operations, which provide for direct sales, alliances, services and support in the region. We have grown our EMEA client base from one client at December 31, 2007 to 226 clients at December 31, 2013. Additionally, we have recently opened new offices in Asia-Pacific, and we intend to grow our operations to provide direct sales, alliances, services and support in that region.

Continue to Innovate and Extend Our Technological Leadership. We believe we have developed over the last decade a deep understanding of the talent management challenges our clients face. We continually collaborate with our clients to build extensive functionality that addresses their specific needs and requests. We plan to continue to leverage our expertise in talent management and client relationships to develop new applications, features and functionality which will enhance our solutions and expand our addressable market.

Make Cornerstone Built to Last. Our growth strategy since inception has been deliberate, disciplined and focused on long-term success. This has allowed us to weather periods of economic turmoil and significant changes in the markets we serve without undergoing layoffs or business contraction. We plan to take the same systematic approach in the future.

Acquisitions. In April 2012, we completed the acquisition of Sonar Limited, or Sonar, a New Zealand cloud-based talent management solution provider serving small businesses globally. Sonar's talent management solution was rebranded as the Cornerstone Small Business solution.

In the future, we may seek to acquire or invest in additional businesses, products or technologies that we believe will complement or expand our solutions, enhance our technical capabilities or otherwise offer growth opportunities. We are also committed to empowering our employees and the communities around us, in part demonstrated by our involvement in the Cornerstone OnDemand Foundation.

Our Solutions

Our core solution is a comprehensive talent management suite that our clients use to find, develop, connect, evaluate and engage their human capital. We built this suite using a single code base and a multi-tenant, multi-user architecture that we host in our data centers. The suite consists of a collection of four integrated clouds, including the Recruiting Cloud, Learning Cloud, Performance Cloud, and Extended Enterprise Cloud. These clouds can be purchased individually, and additional clouds can be added easily. We also offer a number of cross-cloud tools for analytics and reporting, employee profile management, employee on-boarding and e-learning content aggregation. In addition to our core solution, we offer Cornerstone for Small Business and Cornerstone for Salesforce.

Our Clouds

Cornerstone Recruiting Cloud. Our Recruiting Cloud supports the modern ways that businesses source, recruit, hire and onboard new employees. The Recruiting Cloud is fully integrated with our existing talent management suite. It was built using Cornerstone's pure-cloud, multi-tenant architecture, leveraging a common platform, workflow engine, and reporting and administration model. This architecture provides clients with faster deployments, greater flexibility to adapt and change the application without cost or risk, and a seamless user experience across all Cornerstone applications. Clients use the Cornerstone Recruiting Cloud to:

- manage job requisitions;
- post jobs across both traditional job boards and social networks;
- create internal career centers and external career sites;
- manage and enhance employee referral programs;
- identify existing employee connections with candidates;
- quickly assess candidate skills and competencies;
- collaborate with hiring managers and employees throughout the screening process;
- search and compare internal and external candidates;
- build ongoing talent pools; and
- efficiently onboard new hires and accelerate time to productivity.

Cornerstone Learning Cloud. Our Learning Cloud helps clients deliver and manage enterprise training and development programs. It links employee development to other parts of the talent management lifecycle, including performance management and succession planning. The Cornerstone Learning Cloud supports all forms of training, including instructor-led training, e-learning and virtual classroom sessions. We have made tens of thousands of online training titles from over 20 global e-learning vendors accessible through the Cornerstone Learning Cloud to help clients reduce overall training expense and cost-effectively migrate to blended learning curricula of online and instructor-led training. Clients use the Cornerstone Learning Cloud to:

- manage local and global compliance programs, including the tracking of any recurring or non-recurring license, designation, certification, or other compliance-related training and continuing education requirements;
- administer on-boarding programs and orientation for new hires;
- access thousands of e-learning classes from our existing off-the-shelf content providers;
- create, publish and deliver the client's own proprietary training content with our authoring tools;
- automate the administration of instructor-led training sessions, and launch and track virtual classrooms through integrations with third-party tools like Cisco Webex and Microsoft LiveMeeting;
- deliver sophisticated curricula that can include multiple sequenced parts, multiple types of training and enforcement of pre-requisites and follow-up assignments;
- report on costs, participation levels and evaluations of development programs through permission-based dashboards, standard reports and custom reports; and
- enable enterprise social collaboration through rich user profiles as well as the ability to participate in discussions, send messages, contribute to corporate wikis, author blogs, subscribe to information feeds and download audio and videocasts.

Cornerstone Performance Cloud. Our Performance Cloud allows clients to direct and measure performance at the individual, departmental and organizational level through ongoing competency management, organizational goal setting, performance appraisal, compensation management and development planning. Performance data can also be used by the Learning Cloud to set training priorities and to make informed workforce planning decisions. Clients use the Cornerstone Performance Cloud to:

- cascade, track and report goals across the organization to improve business execution and proactively manage organizational objectives;
- identify competency and skill gaps within an organization through manager and peer assessments, using either the client's own proprietary models or third-party competency models;
- automate the annual and interim review process, benefit from a configurable workflow engine to design review questions and steps, automatically include the reviewee's individual goals and competencies, provide managers with a comment assistant and calibrate review scores;
- develop a pay-for-performance culture, aligning compensation allocation decisions with actual employee performance and goal achievement;
- allow managers to work with employees to develop personalized development plans or dynamically create individualized development plans based on competency gaps;
- view dashboards or generate reports and meaningful data on every phase of the performance management cycle; and
- make informed decisions about succession planning, potential organizational changes and retention of high-potential employees at all hierarchical levels.

Cornerstone Extended Enterprise Cloud. Our Extended Enterprise Cloud helps clients extend talent management to their customers, vendors, and distributors. The Extended Enterprise Cloud enables clients to develop new profit centers, increase sales, cut support costs and boost channel productivity. Clients use the Cornerstone Extended Enterprise Cloud to:

- administer for-profit training programs to their own customers more effectively, providing them with a delivery tool, an automated registration system and e-commerce capabilities;
- improve strategic partner enablement with better training, online best practice centers and more readily-available information on products and services;
-

increase customer engagement through social collaboration, virtual communities, educational programs and the enablement of customer-driven product innovation initiatives;
manage distributor certification programs; and
deliver training and targeted information to members of trade associations or other member-based organizations.

Cross-Cloud Tools

Our core solution has a number of capabilities that cross each of our four integrated clouds. These include: Analytics, Reporting, and Dashboards. Our core solution employs a proprietary reporting engine. In addition to approximately 140 included standard reports, this solution includes a custom reporting tool that allows clients to create highly specific reports. This solution also includes dashboard technology to present graphical views of complex data.

MyTeam. MyTeam enables managers to access all employee information, development activities, compliance status, performance data, succession plans, social collaboration updates and action items for team members from a single, highly graphical view. Managers may view information for their direct reporting employees or other employees in their organization.

Talent Profiles. Managers can access integrated Talent Profiles to review key employee data in several locations across our core solution. Talent Profiles function as employee identification cards, detailing user record information, performance ratings, succession management data, enterprise social collaboration activity and informal manager comments. These profiles are available throughout this solution where quick access to information is desired, including in performance reviews, organizational charts, succession plans, compensation plans and user record editing.

E-Learning Content Aggregation. We have entered into relationships with many off-the-shelf e-learning content vendors. This enables us to provide access to tens of thousands of e-learning classes for distribution across our core solution. E-learning, like other forms of training, can be delivered in conjunction with development plans, competency assessments, succession planning scenarios, talent pools and career path exploration.

Cornerstone Mobile. Cornerstone Mobile allows clients to access our core talent management suite from their mobile device. Key capabilities of Cornerstone Mobile include enabling clients to view employee profiles, search the employee directory, and access just-in-time video training.

Consulting Services

We offer comprehensive services to our clients to assist in the successful implementation of our solutions and to optimize our clients' use of our solutions during the terms of their engagements. Our consulting services are offered at fixed fees or on a time-and-material basis at a blended hourly rate for all services.

With our SaaS model, we have eliminated the need for lengthy and complex technology integrations, such as customizing software code, deploying equipment or maintaining unique delivery models or hardware infrastructure for individual clients. As a result, we typically deploy our core solution in significantly less time than required for similar deployments of hosted or on-premise software. Our consulting services include:

Implementation Services. We deploy our core solution to clients through a documented process of discovery, design, and configuration. Most enterprise implementations require services for systems integration, data loading, and software configuration, as well as support with change management. For mid-market clients, this solution can be implemented in a matter of weeks. For enterprise clients, implementation typically takes three to four months.

Integration Services. We provide a range of services and self-service tools to load data into a client's portal and to integrate our core solution with our client's existing systems. Integration services include data feeds to and from HR information systems and enterprise resource planning systems, single sign on, historical data loads and integration of proprietary content.

Content Services. We offer e-learning content consulting services, including training needs analysis, content selection and curriculum design. In addition, we help clients manage their e-learning vendors, and we maintain an aggregated library of third-party online training classes in support of our clients.

Business Consulting Services. We provide business consulting services for existing and prospective clients, such as business process mapping, guidance on industry best practices and project management services. We expect to add additional business consulting services in the future based on client demand.

Educational Services. We provide product training to our clients during implementations and on an ongoing basis. We offer multiple forms of training, including custom classroom training, virtual instructor-led training, and asynchronous online training. Our training covers all aspects of administering and managing our core solution. In addition, our Educational Services team offers live coaching and custom content development support for clients.

Account Services

We are dedicated to the success of our clients. We have developed a Client Success Framework which governs our operational model, the structure of our Account Services team and the types of services necessary at each stage of a client's lifecycle.

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Within this framework, we have developed the following roles with primary responsibility to our clients at various levels of their organizations:

- Account Managers who interact with executive-level sponsors at a client and are focused on the overall relationship, sales to existing clients and client business concerns;
- Client Success Managers who work directly with human resources executives at our clients to maximize the value of their investment in our core solution; and
- Product Specialists who interact with client administrators and are focused on features and functions of our core solution.

We believe this lifecycle-driven approach to client support and client success has contributed directly to our high client retention rate and high rankings for client satisfaction in independent research studies.

We offer support in multiple languages, at multiple levels, and through multiple channels, including global support coverage available 24 hours a day, seven days a week. We use our own enterprise social collaboration product to provide our clients and distributors with a virtual community to collaborate on product design, release management and best practices.

We monitor client satisfaction internally as part of formalized programs and at regular intervals during the client lifecycle, including during the transition from sales to implementation, at the completion of a consulting project and daily based on interactions with the Account Services team.

Our Customers

As of December 31, 2013, 1,631 clients used our core solution with over 14 million registered users across 191 countries and 41 languages. Our clients represent a variety of different industries, including business services, financial services, insurance, non-profits, retail, travel, education and publishing, healthcare, media and communications, the public sector and technology. No single customer accounted for 10% or more of our total revenue in 2013, 2012, or 2011. Some of our significant clients across a variety of different industries who have agreed to be named include:

Automotive

BMW AG

Jaguar Land Rover Automotive plc

Tata Motors Limited

Business Services

Advantage Sales & Marketing, LLC

Automatic Data Processing, Inc.

Kelly Services, Inc.

Education & Publishing

Bright Horizons Family Solutions LLC

Kaplan Higher Education Corporation

University of Southern California

Financial Services

American Bankers Association

Barclays Bank PLC

Société Générale Group

Food & Restaurants

Anheuser-Busch InBev SA/NV

Carlson Restaurants Worldwide, Inc.

Papa John's International, Inc.

Healthcare

McKesson Corporation

Sanford Health

Wellmark, Inc.

Insurance

American International Group, Inc.
Liberty Mutual Insurance Company
RSA Insurance Group plc

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Media & Communications

SBA Communications Corporation

Turner Broadcasting System, Inc.

Virgin Media Limited

Non-Profits

Feeding America

Save the Children Federation, Inc.

Teach for America, Inc.

Public Sector

State of Nebraska

State of North Carolina

U.S. Department of the Treasury

Retail

Reckitt Benckiser Group plc

True Value Company

Walgreen Co.

Technology

BMC Software Inc.

Flextronics International

Microsoft Corporation

Travel

Hyatt Hotels Corporation

MGM Resorts International

Starwood Hotels & Resorts Worldwide Inc.

Technology, Operations and Development

Technology

Our core solution is designed with an on-demand architecture which our clients access via a standard web browser.

Our core solution uses a single code base, with all of our clients running on the current version of our software. From time to time, we may maintain a marginally divergent version for a strategic client for a limited period of time, solely for our convenience. Our core solution has been specifically built to deliver:

- a consistent, intuitive end-user experience to limit the need for product training and to encourage high levels of end-user adoption and engagement;
- modularity and flexibility, by allowing our clients to activate and implement virtually any combination of the features we offer;
- high levels of configurability to enable our clients to mimic their existing business processes, workflows, and organizational hierarchies within our suite;
- web services to facilitate the importing and exporting of data to and from other client systems, such as enterprise resource planning and human resource information system platforms;
- scalability to match the needs of the largest global enterprises and to meet future client growth; and
- rigorous security standards and high levels of system performance and availability demanded by our clients.

Our core solution offers a localized user interface and currency conversion capabilities. It is currently available in the following languages: Arabic, Bahasa (Indonesia), Bahasa (Malaysia), Bulgarian, Chinese Simplified, Chinese Traditional (Hong Kong), Croatian, Czech, Danish, Dutch, English (Australia), English (UK), English (US), Estonian, Finnish, French (Canada), French (France), German, Greek, Hebrew, Hungarian, Italian, Japanese, Korean, Latvian, Lithuanian, Norwegian, Polish, Portuguese (Brazil), Portuguese (Portugal), Romanian, Russian, Serbian, Slovakian, Slovenian, Spanish (Latin America), Spanish (Spain), Swedish, Thai, Turkish, and Ukrainian.

Our core solution is deployed using a multi-tenant and multi-user architecture, which provides our enterprise clients with their own instance of a database. We employ a modularized architecture to balance the load of clients on separate sub-environments, as well as to provide a flexible method for scalability without impacting other parts of the current

environment. This architecture allows us to provide the high levels of uptime required by our clients. Our existing infrastructure has been designed with sufficient capacity to meet our current and future needs.

Security is of paramount importance to us due to the sensitive nature of employee data. We have designed our core solution to meet rigorous industry security standards and to assure clients that their sensitive data is protected across the system. We ensure high levels of security by segregating each client's data from the data of other clients and by enforcing a consistent approach to roles and rights within the system. These restrictions limit system access to only those individuals authorized by our clients. We also employ multiple standard technologies, protocols and processes to monitor, test and certify the security of our infrastructure continuously, including periodic security audits and penetration tests conducted by our clients and commissioned by us from third parties.

We are standardized on Microsoft .NET technologies and write the majority of our software in industry-standard software programming languages, such as C#. We use Web 2.0 technologies, such as AJAX, extensively to enhance the usability, performance, and overall user experience of our core solution. Microsoft SQL Server is deployed for our relational database management system. Apart from these and other third-party components, our entire core solution has been specifically built and upgraded by our in-house development team. We have not acquired or integrated any other third-party technology as the basis of any of our four integrated clouds for recruiting, learning, performance, and extended enterprise. On April 5, 2012, we completed the acquisition of Sonar, a New Zealand cloud-based talent management solution provider serving small businesses globally. Sonar's talent management solution has not been integrated into our four clouds, but instead has been rebranded as our Cornerstone Small Business solution.

Operations

We physically host our core solution for our clients in two secure third-party data center facilities, one located in El Segundo, California and the other located near London, United Kingdom. Both facilities are leased from Equinix, Inc. These facilities provide physical security, including manned security 365 days a year, 24 hours a day, seven days a week, biometric access controls and systems security, redundant power and environmental controls.

Our infrastructure includes firewalls, switches, routers, load balancers, and IDS/IPS from Cisco Systems and others to provide the networking infrastructure and high levels of security for the environment. We use industry standard blade and rack-mounted servers to run our core solution and Akamai Technologies' Global Network of Edge Servers for content caching. We use storage area network, or SAN, hardware from EMC and HP at our data center. These SAN systems have been architected for high performance and data-loss protection, and we believe these systems have the capacity and scalability to enable us to grow for the foreseeable future.

Research and Development

The responsibilities of our research and development organization include product management, product development, quality assurance and technology operations. Our research and development organization is located primarily in our Santa Monica, California headquarters. Our development methodology, in combination with our SaaS delivery model, allows us to release new and enhanced software features on a regular and predictable basis, currently quarterly. We follow a well-defined communications protocol to support our clients with release management. We patch our software on a bi-weekly basis. Based on feedback from our clients and prospects and pursuant to our own innovation, we continuously develop new functionality while enhancing and maintaining our existing solutions. We do not need to maintain multiple engineering teams to support different versions of the code because all of our clients are running on the current version of our solutions.

Our research and development expenses were \$21.3 million in 2013, \$14.9 million in 2012, and \$10.1 million in 2011.

Sales and Marketing

Sales

We sell our software and services both directly through our sales force, and indirectly through our domestic and international network of distributors. We currently service clients in a wide range of industries, including, among others business services, financial services, healthcare, insurance, manufacturing, retail, and high technology. We have a number of direct sales teams organized by market segment, industry and geography, which are as follows:

• **Strategic Accounts.** We have a strategic accounts sales team focused on sales to large multi-national corporations.

• **Enterprise.** Our enterprise sales team sells to large enterprises with 3,000 or more employees. This team is composed primarily of experienced solution sales executives, with an average tenure of 19 years in sales.

• **Mid-Market.** Our mid-market sales team sells to organizations with between 1,500 and 2,999 employees. This team is composed primarily of experienced sales individuals, with an average tenure of 16 years in sales.

Majors. Our majors sales team sell to organizations with between 400 and 1,499 employees. This is a new team in 2014.

Small Business. Our Cornerstone Small Business sales team is targeted to clients with fewer than 400 employees.

Public Sector. Our public sector sales team targets federal, state and local government, as well as K-12 and higher education institutions.

Healthcare. Our healthcare sales team targets healthcare providers such as hospitals, healthcare equipment and services, pharmaceuticals, biotechnology and related life science organizations.

- EMEA. We have both enterprise and mid-market sales professionals based in core European markets. This team is composed primarily of experienced sales individuals, with an average tenure of 17 years in sales.

APAC. We have enterprise sales professionals based in core Asia-Pacific markets including Australia, Hong Kong, India, and Japan and intend to add additional sales personnel in China.

LATAM. We have enterprise sales professionals based in core Latin America markets and intend to add additional sales personnel throughout Latin and South America.

Our direct sales team is supported by product specialists who provide technical and product expertise to facilitate the sales process. Our sales enablement professionals provide on-boarding and ongoing professional development for the sales professionals to increase their effectiveness at selling in the field. We also maintain a separate team of account managers responsible for renewals and up-sales to existing clients, as described above.

Marketing

We manage global demand generation programs, develop sales pipelines and enhance brand awareness through our marketing initiatives. Our marketing programs target HR executives, technology professionals and senior business leaders. Our principal marketing initiatives include:

Demand Generation. Our demand generation activities include lead generation through email and direct mail campaigns, participation in industry events, securing event speaking opportunities, online marketing and search marketing.

Corporate Marketing. We market to our clients by leveraging product marketing, client success stories, thought leadership content, and brand awareness advertising campaigns. Additionally, we host regional client user group meetings and we also co-market with our strategic distributors, including joint press announcements and demand generation activities.

Marketing Communications. We undertake media relations, corporate communications, analyst relations activities and social media outreach.

Strategic Relationships

We have entered into alliance agreements in order to expand our capabilities and geographic presence and provide our clients with access to specific types of content. We have entered into relationships with various third party consulting firms, such as Appirio, Inc. and Tribridge to assist in the successful implementation of our solutions and to optimize our clients' use of our solutions during the terms of their engagements. We utilize these firms to assist in delivery of implementation and integration services amongst other consulting services. As our business grows, we expect to continue to utilize increasing amounts of these services.

Outsourcing and Distribution Relationships

We have developed a network of outsourcing, distribution, and referral relationships to expand our reach and provide product and services sales through indirect channels. These include resale agreements with global vendors such as Appirio, Inc., Automatic Data Processing, Inc., Ellucian Company L.P., and Xerox Corporation as well as regional distributors such as BSI Tecnologia in Brazil, CDP Group, Limited in China, Comms Learning Limited in the United Kingdom, Grupo Datamace in Brazil, Infosys Limited in India, ISQ eLearning in Portugal, Kalleo Learning in South Africa, Logica plc in Europe, Neoris de Mexico, S.A. de C.V. in Mexico, Neospheres SAS in France, QA Limited in the United Kingdom, Sage Software, Inc. in North America, Xpert Learning in United Arab Emirates, T2 Optimise PTY Ltd. in Asia Pacific, Talentech Ltd. in Israel, and Xchanging HR Services Limited in the United Kingdom. We expect to continue to add distributors to build our sales presence in certain geographic and vertical markets.

Consulting and Services Relationships

We have entered into alliance relationships with HR consulting firms to deliver consulting services, such as implementation and content development services, to clients.

Content and Product Relationships

We have developed distributor agreements with a wide range of vendors which provide off-the-shelf e-learning content and custom learning content development services. Through this network, we are able to offer an extensive library of online training content to our clients through our core solution. Our content distributors for e-learning content include industry leaders as well as regional and vertically-focused online training providers. In addition, we have agreements with providers of specific competency models for use by our clients directly in our core solution.

Competition

The market for talent management software specifically, and for human resource technology generally, is highly competitive, rapidly evolving and fragmented. This market is subject to changing technology, shifting client needs and frequent introductions of new products and services.

Most of our sales efforts are competitive, often involving requests for proposals, or RFPs. We compete primarily on the basis of providing a comprehensive, fully integrated suite for talent management as opposed to specific service offerings.

In the applicant tracking systems segment, which the Cornerstone Recruiting Cloud serves, our competitors include Oracle Corporation, which acquired Taleo Corporation in April 2012, and International Business Machines Corporation, which acquired Kenexa Corporation in August 2012. We compete in this segment primarily on the basis of:

- the level of integration of our Recruiting Cloud within our talent management suite;
- the social nature of our Recruiting Cloud, which leverages our clients' ecosystems as well as integrations with leading social networks to offer enhanced recruiting capabilities;
- the ability to compare internal and external candidates to fill open positions and enable talent mobility;
- the quality of our service and focus on client success;
- our ability to provide scalability and flexibility for large global deployments; and
- the ease of use of our Recruiting Cloud and overall user experience.

In the learning management systems segment, which the Cornerstone Learning Cloud and Cornerstone Extended Enterprise Cloud each serve, our competitors include Oracle Corporation, which acquired Taleo Corporation in April 2012, Saba Software, Inc., SAP America, Inc., which acquired SuccessFactors, Inc. in February 2012, and SumTotal Systems, Inc. Most of our competitors in this segment have multiple versions of hosted or on-premise software, whereas we offer a single version of our software. In this segment, we compete primarily based on:

- the quality of our service and focus on client success;
- the ease of use of our Learning Cloud and Extended Enterprise Cloud and overall user experience;
- the breadth of our Learning Cloud and Extended Enterprise Cloud to meet our clients' current and evolving needs;
- our ability to provide scalability and flexibility for large and complex global deployments;
- our integration with third-party e-learning providers domestically and internationally; and
- our ability to serve the extended enterprise of our clients' partners, distributors, contractors, alumni, members, volunteers and customers.

In the performance management systems segment, which the Cornerstone Performance Cloud serves, our competitors include Halogen Software, Inc., Lumesse Limited, Oracle Corporation, which acquired Taleo Corporation in April 2012, Peoplefluent, Inc., and SAP America, Inc., which acquired SuccessFactors, Inc. in February 2012. These vendors are, like us, largely SaaS providers. We compete in this segment primarily on the basis of:

- the criticality of learning and development to an effective performance management program, relying on our strengths in both learning and performance management;
- the quality of our service and focus on client success;
- the breadth and depth of our product functionality;
- the flexibility and configurability of our Performance Cloud to meet the changing content and workflow requirements of our clients' business units;
- the level of integration, configurability, security, scalability and reliability of our Performance Cloud; and
- our vision of integrated talent management, combined with our ability to innovate and respond to client needs rapidly.

In addition, we occasionally compete with custom-built software that is designed to support the needs of a single organization, as well as with third-party talent and human resource application providers that focus on specific aspects of talent management.

Many of our competitors and potential competitors have greater name recognition, longer operating histories and larger marketing budgets than we do. For additional information, see “Risk Factors—Risks Related to Our Business and Industry—The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed” and “Risk Factors—Mergers of or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue.”

Government Contracts

Many of our contracts with government agencies are subject to termination at the election of the government agency. While none of our government contracts provide for renegotiation of fees at the election of the Government, it is possible that the government agency could request, and that we could under certain circumstances agree to, the renegotiation of the payments otherwise payable under such contracts. However, we have not in the past renegotiated significant payment terms under our government contracts. For additional information, see “Risk Factors—We face risks associated with our sales to governmental entities.”

The Cornerstone OnDemand Foundation

To demonstrate our commitment to empowering people and communities, we helped form the Cornerstone OnDemand Foundation, or the Foundation, in 2010. The Foundation seeks to empower communities in the United States and internationally by increasing the impact of the non-profit sector through the utilization of our core solution and strategies.

The Foundation focuses its efforts on the areas of education, workforce development and disaster relief. We have enlisted the help of our employees, clients and distributors to support the Foundation in its efforts. The Foundation is designed to be self-sustaining over time through a variety of ongoing funding streams, such as donations, sponsorships and distribution fees. The Foundation offers a number of programs to support the non-profit sector, including: Strategic Partnership Program. The Foundation offers non-profit clients our core solution and services at a discount, in certain cases of up to 100%. We currently have direct agreements providing similar pricing with non-profit clients, including:

| | | |
|-------------------|-----------------------|-------------------|
| Education | Workforce Development | Disaster Relief |
| KIPP | Goodwill | Feeding America |
| New Leaders | United Way | Oxfam |
| Teach for America | Year Up | Save the Children |

- HR Pro Bono Corps. In our experience, non-profits often lack the capacity or HR resources to invest in the training and development of their employees and volunteers. In response, the Foundation formed an HR Pro Bono Corps in order to match non-profits in need of human capital management related consulting with HR professionals from our global client base who are willing to consult on a voluntary basis.

Gift of Learning. This program offers non-profits the unique opportunity to access online training and development at no cost. Most non-profit organizations lack the resources and the capacity to consistently and effectively invest in their people. Through the Gift of Learning, the Foundation provides relevant content including videos, webinars, whitepapers, and e-learning courses to non-profits domestically and abroad. Non-profit beneficiaries can choose up to 10 individuals in their organization, which can be employees, volunteers or clients, to access the Gift of Learning library which is customized for the nonprofit professional.

DisasterReady.org. In addition to its support of individual non-profits, the Foundation seeks to improve the sector at large by incubating and implementing strategic initiatives that address a critical market need. In 2013, the Foundation launched DisasterReady.org, a free online training website specifically designed by experts in training, capacity building and humanitarian assistance to help prepare aid workers for the demands they face in the field. Informed and supported by prominent aid agencies such as Save the Children, IRC, UNHCR, CARE, IFRC, and World Vision, DisasterReady.org offers dozens of cutting edge e-learning courses, live and recorded webinars on key humanitarian issues, and related training resources focused on disaster preparedness and response.

Impact Grant. The Impact Grant program allows nonprofit organizations to achieve substantial social impact by using learning technology to expand the reach of their educational programs and services. Through the Impact Grant program, the Foundation selects three nonprofit organizations annually from around the globe to each receive a two-

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year grant equal to \$1.0 million in value. Grantees are awarded unlimited usage of the Cornerstone Learning Cloud as well as access to a range of pro bono business consulting services. Using the Cornerstone Learning Cloud, organizations can effectively and efficiently scale their programs by automating the delivery of their training to clients, volunteers, partner agencies, and anyone else at any time. Grantees include organizations such as Project HOPE, The Ounce, and Darkness to Light.

Proprietary Rights

To safeguard our proprietary and intellectual property rights, we rely upon a combination of patent, copyright, trade secret and trademark laws in the United States and in other jurisdictions, and on contractual restrictions. Our key assets include our software code and associated proprietary and intellectual property rights, in particular the trade secrets and know-how associated with our core talent management solution which we developed internally over the years. We were issued a patent for our software in 2003 which expires in 2021; we have since filed for additional patent protection, we own registered trademarks and we will continue to evaluate the need for additional patents and trademarks. We have confidentiality and license agreements with employees, contractors, clients, distributors and other third parties, which limit access to and use of our proprietary information and software.

Though we rely in part upon these legal and contractual protections, we believe that factors such as the skills and ingenuity of our employees, creation of new modules, features, and functionality, collaboration with our clients, and frequent enhancements to our solutions are larger contributors to our success in the marketplace.

Despite our efforts to preserve and protect our proprietary and intellectual property rights, unauthorized third parties may attempt to copy, reverse engineer, or otherwise obtain portions of our product. Competitors may attempt to develop similar products that could compete in the same market as our products. Unauthorized disclosure of our confidential information by our employees or third parties could occur. Laws of other jurisdictions may not protect our proprietary and intellectual property rights from unauthorized use or disclosure in the same manner as the United States. The risk of unauthorized uses of our proprietary and intellectual property rights may increase as we continue to expand outside of the United States.

Third-party infringement claims are also possible in our industry, especially as software functionality and features expand, evolve, and overlap with other industry segments. Current and future competitors, as well as non-practicing patent holders, could claim at any time that some or all of our software infringes on patents they now hold or might obtain or be issued in the future.

Seasonality

Our sales are seasonal in nature. We sign a higher percentage of agreements with new clients, as well as renewal agreements with existing clients, in the fourth quarter of each year. In addition, within a given quarter, we sign a significant portion of these agreements during the last month, and often the last two weeks, of that quarter. We believe this seasonality is driven by several factors, most notably the tendency of procurement departments at our clients to purchase technology at the end of a quarter or calendar year, possibly in order to use up their available quarterly or annual funding allocations, or to be able to deploy new talent management capabilities prior to the beginning of a new financial or performance period. As the terms of most of our client agreements are measured in full year increments, agreements regardless of when executed, will generally come up for renewal at that same time in subsequent years.

Business Segment and Geographical Information

We operate in a single operating segment. For geographic financial information, see Note 14 to our consolidated financial statements, which is incorporated herein by reference.

Working Capital Practices

Information about our working capital practices is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Liquidity and Capital Resources" and is incorporated herein by reference.

Employees

At December 31, 2013, we had 987 employees, which is a 32% increase from 750 employees at December 31, 2012. None of our employees are covered by a collective bargaining agreement, and we have never experienced a strike or similar work stoppage. We consider our relations with our employees to be strong. Internally, we strive to empower our people by using our core solution to on-board, develop, connect, align, assess, retain and promote our own

employees.

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Additional Information

Our Internet address is www.cornerstoneondemand.com. We make available free of charge through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. Information contained on, or that can be accessed through, our website is not incorporated by reference into this report, and you should not consider information on our website to be part of this report.

The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public also may read and copy these filings at the SEC's Public Reference Room at 100 F Street N.E., Washington, DC 20549. Information about this Public Reference Room is available by calling (800) SEC-0330.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see Item 1. "Business—Forward Looking Statements" for a discussion of the forward-looking statements that are qualified by these risk factors. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results, and financial condition could be materially adversely affected.

Risks Related to Our Business and Industry

We have a history of losses, and we cannot be certain that we will achieve or sustain profitability.

We have incurred losses since our inception. We experienced net losses of \$40.4 million, \$31.4 million, and \$63.9 million in 2013, 2012 and 2011, respectively. At December 31, 2013, our accumulated deficit was \$236.5 million and total stockholders' equity was \$52.9 million. We expect to continue to incur operating losses as a result of expenses associated with the continued development and expansion of our business. Our expenses include among others, sales and marketing, research and development, consulting and support services and other costs relating to the development, marketing and sale and service of our solutions that may not generate revenue until later periods, if at all. Any failure to increase revenue or manage our cost structure as we implement initiatives to grow our business could prevent us from achieving or sustaining profitability. In addition, our ability to achieve profitability is subject to a number of the risks and uncertainties discussed below, many of which are beyond our control. We cannot be certain that we will be able to achieve or sustain profitability on a quarterly or annual basis.

Unfavorable conditions in our industry or the global economy, or reductions in information technology spending, could limit our ability to grow our business and negatively affect our operating results.

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our clients. The revenue growth and potential profitability of our business depends on demand for enterprise application software and services generally and for talent management solutions in particular. We sell our core solution primarily to large, mid-sized and small business organizations whose businesses fluctuate based on general economic and business conditions. In addition, a portion of our revenue is attributable to the number of users of our solutions at each of our clients, which in turn is influenced by the employment and hiring patterns of our clients and potential clients. To the extent that weak economic conditions cause our clients and potential clients to freeze or reduce their headcount, demand for our solutions may be negatively affected. Historically, economic downturns have resulted in overall reductions in spending on information technology or talent management solutions as well as pressure for extended billing terms, as occurred during the recent recession. If economic conditions deteriorate or do not materially improve, our clients and potential clients may elect to decrease their information technology and talent management budgets by deferring or reconsidering product purchases, which would limit our ability to grow our business and negatively affect our operating results.

Our financial results may fluctuate due to our long, variable and, therefore, unpredictable sales cycle and our focus on large and mid-market organizations.

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. If our sales cycle becomes longer or more variable, our results may be adversely affected. Our sales cycle generally varies in duration between two to nine months and, in some cases, much longer depending on the size of the potential client. Factors that may influence the length and variability of our sales cycle include among others:

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- the need to educate potential clients about the uses and benefits of our solutions;
- the relatively long duration of the commitment clients make in their agreements with us;
- the discretionary nature of potential clients' purchasing and budget cycles and decisions;
- the competitive nature of potential clients' evaluation and purchasing processes;
- evolving functionality demands of potential clients;
- fluctuations in the talent management needs of potential clients;
- announcements or planned introductions of new products by us or our competitors; and
- lengthy purchasing approval processes of potential clients.

The fluctuations that result from the length and variability of our sales cycle may be magnified by our focus on sales to large and mid-sized organizations. If we are unable to close an expected significant transaction with one or more of these companies in a particular period, or if an expected transaction is delayed until a subsequent period, our operating results, and in particular our bookings, for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be adversely affected.

Our financial results may fluctuate due to other factors, including invoicing terms, some of which may be beyond our control.

There are a number of other factors that may cause our financial results to fluctuate from period to period, including among others:

- changes in billing cycles and the size of advance payments relative to overall contract value in client agreements;
- the extent to which new clients are attracted to our solutions to satisfy their talent management needs;
- the timing and rate at which we sign agreements with new clients;
- our access to service providers when we outsource client service projects and our ability to manage the quality and completion of the related client implementations;
- the timing and duration of our client implementations, which is often outside of our direct control, and our ability to provide resources for client implementations and consulting projects;
- the extent to which we retain existing clients and satisfy their requirements;
- the extent to which existing clients renew their subscriptions to our solutions and the timing of those renewals;
- the extent to which existing clients purchase or discontinue the use of additional solutions and add or decrease the number of users;
- the extent to which our clients request enhancements to underlying features and functionality of our solutions and the timing for us to deliver the enhancements to our clients;
- the addition or loss of large clients, including through acquisitions or consolidations;
- the number and size of new clients, as well as the number and size of renewal clients in a particular period;
- the mix of clients between small, mid-sized and large organizations;
- changes in our pricing policies or those of our competitors;
- seasonal factors affecting demand for our solutions or potential clients' purchasing decisions;
- the financial condition and creditworthiness of our clients;
- the amount and timing of operating expenses, including those related to the maintenance and expansion of our business, operations and infrastructure;
- the timing and success of new product and service introductions by us;
- the timing of expenses related to the development of new products and technologies, including enhancements to our solutions;
- the timing and success of current and new competitive products and services by our competitors;
- other changes in the competitive dynamics of our industry, including consolidation among competitors, clients or strategic partners;
- our ability to manage our existing business and future growth, including in terms of additional clients, incremental users and new geographic regions;
- expenses related to our data centers and the expansion of such data centers;
- the effects of, and expenses associated with, acquisitions of third-party technologies or businesses and any potential future charges for impairment of goodwill resulting from those acquisitions;

equity issuances, including as consideration in acquisitions or due to the conversion of our outstanding convertible notes;

general economic, industry and market conditions; and

various factors related to disruptions in our SaaS hosting network infrastructure, defects in our solutions, privacy and data security, and exchange rate fluctuations, each of which is described elsewhere in these risk factors.

In light of the foregoing factors, we believe that our financial results, including our revenue and deferred revenue levels, may vary significantly from period-to-period. As a result, period-to-period comparisons of our operating results may not be meaningful and should not be relied on as an indication of future performance.

The forecasts of market growth may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, we cannot assure you our business will grow at similar rates, or at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates which may not prove to be accurate. Forecasts relating to the expected growth in the SaaS market or talent management market may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

Even if demand for talent management products and services increases generally, there is no guarantee that demand for SaaS solutions like ours will increase to a corresponding degree.

The widespread adoption of our solutions depends not only on strong demand for talent management products and services generally, but also for products and services delivered via a SaaS business model in particular. There are still a significant number of organizations that have adopted no talent management functions at all, and it is unclear whether such organizations ever will adopt such functions and, if they do, whether they will desire SaaS talent management solutions like ours. As a result, we cannot assure you that our SaaS talent management solutions will achieve and sustain the high level of market acceptance that is critical for the success of our business.

Our business depends substantially on clients renewing their agreements and purchasing additional solutions from us or adding additional users. Any decline in our client renewals or purchases of additional products or additional users would harm our future operating results.

In order for us to improve our operating results, it is important that our clients renew their agreements with us when the initial contract term expires and also purchase additional products or add additional users. Our clients have no obligation to renew their subscriptions after the initial subscription period, and we cannot assure you that our clients will renew subscriptions at the same or higher level of service, if at all. In the past, some of our clients have elected not to renew their agreements with us. Moreover, certain of our clients have the right to cancel their agreements for convenience, subject to certain notice requirements and, in some cases, early termination fees. Our clients' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our solutions, pricing, the prices of competing products or services, mergers and acquisitions affecting our client base, reduced hiring by our clients or reductions in our clients' spending levels. If our clients do not renew their subscriptions, renew on less favorable terms, fail to purchase additional products, or fail to add new users, our revenue may decline, and our operating results may be harmed.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for talent management software is highly competitive, rapidly evolving and fragmented. Many of our competitors and potential competitors are larger and have greater brand name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do, and, with the introduction of new technologies and market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures. Similarly, some competitors offer different billing terms, which has resulted in pressures on our billing terms. If we are unable to maintain our pricing levels and billing terms, our operating results could be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our solution to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from paper-based processes and desktop software tools. We also face competition from custom-built software that is designed to support the needs of a single organization, as well as from third-party talent and human resource application providers. These software vendors include, without limitation, Halogen Software, Inc., International Business Machines Corporation, which acquired Kenexa Corporation in August 2012, Lumesse AS, Oracle Corporation, which acquired

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Taleo Corporation in April 2012, Peoplefluent, Inc., Saba Software, Inc., SAP America, Inc., which acquired SuccessFactors, Inc. in February 2012, and SumTotal Systems, Inc. In addition, some of the parties with which we maintain business alliances offer or may offer products or services that compete with our products or services. Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. In addition, many of our competitors have established marketing relationships, access to larger client bases and major distribution agreements with consultants, system integrators and distributors. Moreover, many software vendors could bundle human resource products or offer such products at a lower price as part of a larger product sale. In addition, some competitors may offer software that addresses one, or a limited number, of talent management functions at a lower price point or with greater depth than our solutions. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or client requirements. Further, some potential clients, particularly large enterprises, may elect to develop their own internal solutions. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

Mergers of or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue.

If one or more of our competitors were to merge, acquire or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. For example, in February 2012, SAP America, Inc. acquired SuccessFactors, Inc., one of our competitors; in April 2012, Oracle Corporation acquired Taleo Corporation, another one of our competitors; and in August 2012 International Business Machines Corporation acquired Kenexa, Inc., also one of our competitors. Our competitors may also establish or strengthen cooperative relationships with our current or future strategic distributors, systems integrators, HR outsourcers, payroll services companies, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our solutions and limiting the number of consultants available to implement our solutions. Disruptions in our business caused by these events could reduce our revenue.

Our business and operations are experiencing rapid growth and organizational change. If we fail to effectively manage such growth and change in a manner that preserves the key aspects of our corporate culture, our business and operating results could be harmed.

We have experienced, and may continue to experience, rapid growth and organizational change, which has placed, and may continue to place, significant demands on our management, operational and financial resources. For example, our headcount has grown from 750 employees on December 31, 2012 to 987 employees on December 31, 2013. In addition, we have established offices in Australia, France, Germany, Hong Kong, India, Israel, Italy, Japan, New Zealand, Spain and the United Kingdom. We may continue to expand our international operations into other countries in the future, either organically or through acquisitions. We have also experienced significant growth in the number of users, transactions and data that our SaaS hosting infrastructure supports. Finally, our organizational structure is becoming more complex as we improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to client success that has been central to our growth so far. If we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our solution may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract clients.

For a detailed discussion of the risks related to our ability to expand our business internationally, manage growth in our SaaS hosting network infrastructure, and expand parts of our organization to implement improved operational, financial and management controls and reporting systems, see the following risk factors “—As a public company, we are obligated to develop and maintain proper and effective internal control over financial reporting. If our internal control over financial reporting is ineffective, our financial reporting may not be accurate, complete and timely, and our auditors may be unable to attest to its effectiveness when required, thus adversely affecting investor confidence in our company.” and “—We currently have a limited number of international offices and are expanding our international operations. Additionally, we do not have substantial experience in all international markets and may not achieve the results that we expect.”

We may acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders or otherwise disrupt our operations and harm our operating results.

In April 2012, we acquired Sonar Limited, a SaaS talent management solution provider serving small businesses. In the future, we may seek to acquire or invest in other businesses, products or technologies that we believe could complement or expand our existing solutions, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are ultimately consummated.

Other than our acquisition of Sonar Limited, we do not have any experience in acquiring other businesses. We may not be able to successfully integrate the personnel, operations and technologies of any other businesses that we may acquire in the future or effectively manage the combined business following the acquisition. We may also not achieve the anticipated benefits from other acquired businesses due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- harm to our existing relationships with distributors and clients as a result of the acquisition;
- the potential loss of key employees;
- the use of resources that are needed in other parts of our business; and
- the use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill, which must be assessed for impairment at least annually, or to intangible assets, which are assessed for impairment upon certain triggering events. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could harm our operating results.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. For example, in our acquisition of Sonar Limited, we issued an aggregate of 46,694 shares of our common stock. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer.

As a public company, we are obligated to develop and maintain proper and effective internal control over financial reporting. If our internal control over financial reporting is ineffective, our financial reporting may not be accurate, complete and timely, and our auditors may be unable to attest to its effectiveness when required, thus adversely affecting investor confidence in our company.

We are required, pursuant to 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. Our auditors also need to audit the effectiveness of our internal control over financial reporting. These assessments will need to include disclosure of any material weaknesses in our internal control over financial reporting.

We have and continue to incur significant costs assessing our system of internal control over financial reporting and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may discover, and may not be able to remediate, future significant deficiencies or material weaknesses, or we may be unable to complete our evaluation, testing or any required remediation in a timely fashion. Failure of our internal control over financial reporting to be effective could cause our financial reporting to be inaccurate, incomplete or delayed.

Moreover, even if no inaccuracy, incompleteness or delay of reporting results, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert, and our auditors will be unable to affirm, that our internal control is effective, in which case investors may lose confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our common stock. Our systems collect, access, use and store personal and other client proprietary information. As a result, we are subject to security risks and are required to invest significant resources to prevent or correct problems caused by security breaches. If a security breach occurs, our reputation could be harmed, our business may suffer, and we could incur significant liability.

Our talent management solutions involve the storage and transmission of clients' proprietary and confidential information over the Internet (including public networks), and security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of this information, damage to our reputation, early termination of our contracts, litigation, regulatory investigations or other liabilities. In addition, errors in the storage or transmission of such information could compromise the security of that information. 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 data, our reputation will be damaged, our business may suffer and we could incur significant liability. Advances in computer capabilities, new discoveries in the field of cryptography or other events or

developments could result in compromises or breaches of our security systems and the data stored in these systems. Because there is a time lag associated with developing adequate protections against such new developments and techniques, unauthorized access or sabotage of our systems and the information processed in connection with our business may result. If an actual or perceived security breach occurs, the market perception of our security measures could be harmed and we could lose sales and clients. Any violations of privacy or information security could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and

adversely impact our operating results and financial condition, including our ability to make required reporting and disclosures as a public company. Moreover, if a high-profile security breach occurs with respect to another SaaS provider, our clients and potential clients may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing clients or attract new ones.

Any significant disruption in our SaaS hosting network infrastructure could harm our reputation, require us to provide credits or refunds, result in early termination of a client agreement or a loss of clients, and adversely affect our business.

Our SaaS hosting network infrastructure is a critical part of our business operations. Our clients access our talent management solutions through a standard web browser. Our clients depend on us for fast and reliable access to our solutions. Our software is proprietary, and we rely on the expertise of members of our engineering and software development teams for the continued performance of our solutions. We have experienced, and may in the future experience, disruptions in our computing and communications infrastructure. Factors that may cause such disruptions that may harm our reputation include:

- human error;
- security breaches;
- telecommunications outages from third-party providers;
- computer viruses;
- acts of terrorism, sabotage or other intentional acts of vandalism, including cyber attacks;
- unforeseen interruption or damages experienced in moving hardware to a new location;
- fire, earthquake, flood and other natural disasters; and
- power loss.

Although we generally back up our client databases hourly, store our data in more than one geographically distinct location at least weekly and perform real-time mirroring of data to disaster recovery locations, we do not currently offer immediate access to disaster recovery locations in the event of a disaster or major outage. Thus, in the event of any of the factors described above, or certain other failures of our computing infrastructure, clients may not be able to access their data for 24 hours or more. There is a remote chance that client data from recent transactions may be permanently lost or otherwise compromised. Moreover, some of our agreements include performance guarantees and service level standards that obligate us to provide credits, or refunds or termination rights in the event of a significant disruption in our SaaS hosting network infrastructure or other technical problems that relate to the functionality or design of our solutions.

We rely on third-party computer hardware and software that may be difficult to replace or could cause errors or failures of our service.

In addition to the software we develop, we rely on computer hardware, purchased or leased, and software licensed from third parties in order to deliver our solutions. This hardware and software may not continue to be available on commercially reasonable terms, if at all. Any loss of the right to use any of this hardware or software could result in delays in our ability to provide our solutions until equivalent technology is either developed by us or, if available, identified, obtained and integrated. In addition, errors or defects in third-party hardware or software used in our solutions could result in errors or a failure of our solutions, which could harm our business. Moreover, we utilize self-managed, co-location facilities. If our co-location facilities do not scale and support our continued growth on a more cost-effective basis than a fully managed third-party environment, our business may be negatively impacted. Defects in our solutions could affect our reputation, result in significant costs to us, and impair our ability to sell our solutions and related services.

Defects in our solutions could adversely affect our reputation, result in significant costs to us, and impair our ability to sell our solutions in the future. The costs incurred in correcting any solution defects may be substantial and could adversely affect our operating results. Although we continually test our solutions for defects and work with clients through our client support organization to identify and correct errors, defects in our solutions are likely to occur in the future. Any defects that cause interruptions to the availability of our solutions could result in:

- lost or delayed market acceptance and sales of our solutions;
- early termination of client agreements or loss of clients;

- credits or refunds to clients;
- product liability suits against us;
- diversion of development resources;
- injury to our reputation; and

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increased maintenance and warranty costs.

While our client agreements typically contain limitations and disclaimers that purport to limit our liability for damages related to defects in our solutions, such limitations and disclaimers may not be enforced by a court or other tribunal or otherwise effectively protect us from such claims.

If we fail to manage our SaaS hosting network infrastructure capacity, our existing clients may experience service outages and our new clients may experience delays in the deployment of our talent management solutions.

We have experienced significant growth in the number of users, transactions and data that our hosting infrastructure supports. We seek to maintain sufficient excess capacity in our SaaS hosting network infrastructure to meet the needs of all of our clients. We also seek to maintain excess capacity to facilitate the rapid provision of new client deployments and the expansion of existing client deployments. However, the provision of new hosting infrastructure requires significant lead time. If we do not accurately predict our infrastructure capacity requirements, our existing clients may experience service outages that may subject us to financial penalties, financial liabilities and client losses. If our hosting infrastructure capacity fails to keep pace with increased sales, clients may experience delays as we seek to obtain additional capacity, which could harm our reputation and adversely affect our revenue growth.

Our growth depends in part on the success of our strategic relationships with third parties.

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. In addition to growing our indirect sales channels, we intend to pursue additional relationships with other third parties, such as technology and content providers and implementation consultants. Identifying, negotiating and documenting relationships with third parties require significant time and resources, as does integrating third-party content and technology. Our agreements with distributors and providers of technology, content and consulting services are typically non-exclusive, do not prohibit them 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 or to prevent or reduce subscriptions to our solutions. In addition, these distributors and providers may not perform as expected under our agreements, and we have had, and may in the future have, disagreements or disputes with such distributors and providers, which could negatively affect our brand and reputation. A global economic slowdown could also adversely affect the businesses of our distributors, and it is possible that they may not be able to devote the resources we expect to our relationships with such distributors.

If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results could suffer. Even if we are successful, we cannot assure you that these relationships will result in improved operating results.

We rely on various third-party consulting firms to deliver consulting services to our clients, so if these firms fail to deliver these services effectively, or if we are unable to maintain existing relationships or enter into new relationships, it could impact the timing of the recognition of the revenue associated with such services.

We rely on various third party consulting firms to assist us in the successful implementation of our solutions and to optimize our clients' use of our solutions during the terms of their engagements. Further, if these firms fail to deliver these services to our customers in an effective and timely manner, we may suffer reputational harm and our result of operations may be adversely impacted. Also, unfavorable global economic conditions may hurt our providers, making them less effective or causing them to modify or cancel their relationships with us. If we are unable to maintain our existing relationships or enter into new ones, we would have to devote substantially more resources to delivering our consulting services, which could impact the timing of the recognition of the revenue associated with such services. Failure to effectively expand our direct sales teams and develop and expand our indirect sales channel will impede our growth.

We will need to continue to expand our sales and marketing infrastructure in order to grow our client base and our business. We plan to significantly expand our direct sales teams and engage additional third-party distributors, both domestically and internationally. Identifying, recruiting and training these people and entities will require significant time, expense and attention. Our business will be seriously harmed and our financial resources will be wasted if our efforts to expand our direct and indirect sales channels do not generate a corresponding increase in revenue. In particular, if we are unable to hire, develop and retain talented sales personnel or if our new direct sales personnel are unable to achieve expected productivity levels in a reasonable period of time, we may not be able to significantly

increase our revenue and grow our business.

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If we fail to retain key employees and recruit qualified technical and sales personnel, our business could be harmed. We believe that our success depends on the continued employment of our senior management and other key employees, such as our chief executive officer. In addition, because our future success is dependent on our ability to continue to enhance and introduce new software and services, we are heavily dependent on our ability to attract and retain qualified engineers with the requisite education, background and industry experience. As we expand our business, our continued success will also depend, in part, on our ability to attract and retain qualified sales, marketing and operational personnel capable of supporting a larger and more diverse client base. The loss of the services of a significant number of our engineers or sales people could be disruptive to our development efforts or business relationships. In addition, if any of our key employees joins a competitor or decides to otherwise compete with us, we may experience a material disruption of our operations and development plans, which may cause us to lose clients or increase operating expenses as the attention of our remaining senior managers is diverted to recruit replacements for the departed key employees.

In cases where we are asked by clients to deploy our solutions on their behalf, failure to effectively manage such client deployments by us or our third-party service providers could adversely impact our business.

Clients have the option of implementing our solutions themselves or relying on us to do so on their behalf. In cases where we are asked to deploy a solution for a client, we need to have a substantial understanding of such client's business so that we can configure the solution in a manner that complements its existing business processes and integrates the solution into its existing systems. It may be difficult for us to manage the timeliness of these deployments and the allocation of personnel and resources by us or our clients. In certain situations, we also work with third-party service providers in the deployment of our solutions, and we may experience difficulties managing such third parties. Failure to successfully manage client deployments by us or our third-party service providers could harm our reputation and cause us to lose existing clients, face potential client disputes or limit the rate at which new clients purchase our solutions.

Because we recognize revenue from client subscriptions over the term of the agreement, a significant downturn in our business may not be immediately reflected in our operating results.

Generally, we recognize revenue from subscription agreements monthly over the terms of these agreements, which is typically three years for our core solution. As a result, a significant portion of the revenue we report in each quarter is generated from client agreements entered into during previous periods. Consequently, a decline in new or renewed subscriptions in any one quarter may not impact our revenue and financial performance in that quarter, but will negatively affect our revenue and financial performance in future quarters. If a number of contracts expire and are not renewed in the same quarter, our revenue will decline significantly in that quarter and subsequent quarters. In addition, we may be unable to adjust our fixed costs in response to reduced revenue. Accordingly, the effect of significant declines in sales and market acceptance of our solutions may not be reflected in our short-term operating results.

Because we generally recognize subscription revenue from our clients over the terms of their agreements but incur most costs associated with generating such agreements upfront, rapid growth in our client base may put downward pressure on our operating income in the short term.

The expenses associated with generating client agreements are generally incurred up front but the resulting subscription revenue is generally recognized over the life of the agreements; therefore, increased growth in the number of our clients will result in our recognition of more costs than revenue during the early periods covered by such agreements, even in cases where the agreements are expected to be profitable for us over their full terms.

Certain of our operating results and financial metrics are difficult to predict as a result of seasonality.

We have historically experienced seasonality in terms of when we enter into client agreements for our solutions. We sign a significantly higher percentage of agreements with new clients, and renewal agreements with existing clients, in the fourth quarter of each year and a significant portion of these agreements are signed during the last month, and with respect to each quarter, often the last two weeks of the quarter. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, due to the fact that we generally recognize subscription revenue over the term of the client agreement, which is generally three years. We expect this seasonality to continue, in the future, which may cause fluctuations in certain of our operating results and financial metrics, and thus

difficulties in predictability.

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Integrated, comprehensive SaaS solutions such as ours represent a relatively recent approach to addressing organizations' talent management challenges, and we may be forced to change the prices we charge for our solutions, or the pricing model upon which they are based, as the market for these types of solutions evolves.

Providing organizations with applications to address their talent management challenges through integrated, comprehensive SaaS solutions is a developing market. The market for these solutions is therefore still evolving, and competitive dynamics may cause pricing levels, as well as pricing models generally, to change, as the market matures and as existing and new market participants introduce new types of solutions and different approaches to enable organizations to address their talent management needs. As a result, we may be forced to reduce the prices we charge for our solutions or the pricing model on which they are based, and may be unable to renew existing client agreements or enter into new client agreements at the same prices and upon the same terms that we have historically, which could have a material adverse effect on our revenue, gross margin and other operating results.

Existing or future laws and regulations relating to privacy or data security could increase the cost of our solutions and subject us or our clients to litigation, regulatory investigations and other potential liabilities.

Our talent management solutions enable our clients to collect, manage and store a wide range of data related to every phase of the employee performance and management cycle. The United States and various state governments have adopted or proposed limitations on the collection, distribution and use of personal information. Several foreign jurisdictions, including the European Union and the United Kingdom, China, Korea, Japan, Singapore, Australia and India, have adopted legislation (including directives or regulations) that increase or change the requirements governing data collection and storage in these jurisdictions. If our privacy or data security measures fail to comply with current or future laws and regulations, we may be subject to litigation, regulatory investigations or other liabilities. Moreover, if future laws and regulations limit our clients' ability to use and share employee data or our ability to store, process and share data with our clients over the Internet, demand for our solutions could decrease, our costs could increase, and our operating results and financial condition could be harmed.

Evolving regulation of the Internet or changes in the infrastructure underlying the Internet may adversely affect our financial condition by increasing our expenditures and causing client dissatisfaction.

As Internet commerce continues to evolve, regulation by federal, state or foreign agencies may increase. We are particularly sensitive to these risks because the Internet is a critical component of our business model. In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Legislation has been proposed that may impact the way that Internet service providers treat Internet traffic. The outcome of such proposals is uncertain but certain outcomes may negatively impact our business or increase our operating costs. Any regulation imposing greater fees for Internet use or restricting information exchanged over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

In addition, the rapid and continual growth of traffic on the Internet has resulted at times in slow connection and download speeds among Internet users. Our business expansion may be harmed if the Internet infrastructure cannot handle our clients' demands or if hosting capacity becomes insufficient. If our clients become frustrated with the speed at which they can utilize our solutions over the Internet, our clients may discontinue the use of our talent management solutions and choose not to renew their contracts with us.

We currently have a limited number of international offices and are expanding our international operations.

Additionally, we do not have substantial experience in all international markets and may not achieve the results that we expect.

We currently have international offices in Australia, France, Germany, Hong Kong, India, Israel, Italy, Japan, New Zealand, Spain and the United Kingdom, and we may expand our international operations into other countries in the future. International operations involve a variety of risks, including:

- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing labor regulations;
- regulations relating to data security and the unauthorized use of, or access to, commercial and personal information;
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potential penalties or other adverse consequences for violations of anti-corruption, anti-bribery and other similar laws and regulations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act.
• greater difficulty in supporting and localizing our products;
• changes in a specific country's or region's political or economic conditions;

challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, controls, policies, benefits and compliance programs; limited or unfavorable intellectual property protection; and restrictions on repatriation of earnings.

We have less significant experience in marketing, selling and supporting our products and services abroad. Our less significant experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer.

If we fail to develop our brand cost-effectively, our business may suffer.

We believe that developing and maintaining awareness of the Cornerstone OnDemand brand in a cost-effective manner is critical to achieving widespread acceptance of our existing and future solutions and is an important element in attracting new clients. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful services at competitive prices. In the past, our efforts to build our brand have involved significant expenses. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brand. In addition, the Cornerstone OnDemand Foundation shares our company name and any negative perceptions of any kind about the Foundation could adversely affect our brand and reputation. If we fail to successfully promote and maintain our brand, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract enough new clients or retain our existing clients to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

We face risks associated with our sales to governmental entities.

The risks associated with doing business with governmental entities include, but are not limited to, the following:

- Selling to governmental entities can be more competitive, expensive and time-consuming than selling to private entities;

- Governmental entities may have significant leverage in negotiations, thereby enabling such entities to demand contract terms that differ from what we generally agree to in our standard agreements, including, for example, most favored nation clauses and terms allowing contract termination for convenience;

- Government demand and payment for our solutions may be influenced by public sector budgetary cycles and funding authorizations, with funding reductions or delays having an adverse impact on public sector demand for our solutions; and

- Government contracts are generally subject to audits and investigations, which we have no experience with, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

While our experience dealing with governmental entities has so far been limited, to the extent that we become more reliant on contracts with government clients in the future, our exposure to such risks could increase, which, in turn, could adversely impact our business.

If for any reason we are not able to develop enhancements and new features, keep pace with technological developments or respond to future disruptive technologies, our business will be harmed.

Our future success will depend on our ability to adapt and innovate. To attract new clients and increase revenue from existing clients, we will need to enhance and improve our existing solutions and introduce new features. The success of any enhancement or new feature depends on several factors, including timely completion, introduction and market acceptance. If we are unable to successfully develop or acquire new features or products or enhance our existing products to meet client needs, our business and operating results will be adversely affected.

In addition, because our solutions are designed to operate on a variety of network, hardware and software platforms using Internet tools and protocols, we will need to continuously modify and enhance our solutions to keep pace with changes in internet-related hardware, software, communication, browser and database technologies. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments, our solutions may become

less marketable and less competitive or obsolete, and our operating results may be negatively impacted.

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Finally, our ability to grow is subject to the risk of future disruptive technologies. If new technologies emerge that are able to deliver talent management solutions at lower prices, more efficiently or more conveniently, such technologies could adversely impact our ability to compete.

We might require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may seek additional funds to respond to business challenges, including the need to develop new features or enhance our existing solutions, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in additional equity or debt financings to secure additional funds. If we raise additional funds through issuances of equity or 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. Any debt financing secured by us in the future 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 impaired.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including our convertible notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to satisfy our obligations under the notes and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the notes or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the notes or future indebtedness.

The conditional conversion feature of the notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, we would be required to settle a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for our convertible debt securities that may be settled in cash, such as the notes, may have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report lower net income (or greater net loss) in our financial results because ASC 470-20 will require

interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the notes.

In addition, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is

accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

If we fail to adequately protect our proprietary rights, our competitive advantage and brand could be impaired and we may lose valuable assets, generate reduced revenue and incur costly litigation to protect our rights.

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our licensed products may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying and use of our products and proprietary information may increase. We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. These agreements may not be effective in controlling access to and distribution of our products and proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. If we fail to secure, protect and enforce our intellectual property rights, we may lose valuable assets, generate reduced revenue and incur costly litigation to protect our rights, which could seriously harm our brand and adversely impact our business.

We may be sued by third parties for alleged infringement of their proprietary rights or may find it necessary to enter into licensing arrangements with third parties to settle or forestall such claims, either of which could have a material adverse effect on our operating results and financial condition.

There is considerable patent and other intellectual property development activity in our industry. Our success depends in part upon our not infringing the intellectual property rights of others. However, our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry or, in some cases, our technology or products. From time to time, such third parties may claim that we are infringing their intellectual property rights, and we may actually be found to be infringing such rights. Moreover, we may be subject to claims of infringement with respect to technology that we acquire or license from third parties. The risk that we could be subject to infringement claims is increasing as the number of products and companies competing with our solutions grows. Any claims or litigation could require the commitment of substantial time and resources and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty or licensing payments, indemnify our clients, distributors or other third parties, modify or discontinue the sale of our products, or refund fees, any of which would deplete our resources and adversely impact our business. We have in the past obtained, and may in the future obtain, licenses from third parties to forestall or settle potential claims that our products and technology infringe the intellectual property rights of others. Discussions and negotiations with such third parties, whether successful or unsuccessful, could result in substantial costs and the diversion of management resources, either of which could seriously harm our business.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with clients and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our products, services, or other

contractual obligations. The term of these indemnity provisions generally survives termination or expiration of the applicable agreement. Large indemnity payments could harm our business, operating results and financial condition. From time to time, we are requested by clients to indemnify them for breach of confidentiality with respect to personal data. Although we normally do not agree to, or contractually limit our liability with respect to, such requests, the existence of such a dispute with a client may have adverse effects on our client relationships and reputation.

We use open source software in our products, which could subject us to litigation or other actions.

We use open source software in our products and may use more open source software in the future. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our products. In addition, if we were to combine our proprietary software products with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software products. If we inappropriately use open source software, we may be required to re-engineer our products, discontinue the sale of our products or take other remedial actions.

We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in full compliance with applicable laws. Our solutions are subject to export controls, including the Commerce Department's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls, and exports of our solutions must be made in compliance with these laws. If we fail to comply with these U.S. export control laws and import laws, including U.S. Customs regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our distributors fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming and is not guaranteed, and may result in the delay or loss of sales opportunities. Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being shipped or provided to U.S. sanctions targets, our solutions and services could be shipped to those targets or provided by our distributors despite such precautions. Any such shipment could have negative consequences, including government investigations, penalties and reputational harm. In addition, various countries regulate the import of certain encryption technology, including through import permitting or licensing requirements, and have enacted laws that could limit our ability to distribute our solutions or could limit our clients' ability to implement our solutions in those countries. Changes to our solutions or changes in export and import regulations may create delays in the introduction and sale of our solutions in international markets, prevent our clients with international operations from deploying our solutions or, in some cases, prevent the export or import of our solutions to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions, or in our decreased ability to export or sell our solutions to existing or potential clients with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would likely adversely affect our business, financial condition and operating results.

Fluctuations in the exchange rate of foreign currencies could result in foreign currency gains and losses.

We currently have foreign sales denominated in Australian Dollars, Canadian Dollars, Euros, Great British Pounds, Indian Rupees, Japanese Yen, New Zealand Dollars, Singapore Dollars, and South African Rand and may in the future have sales denominated in the currencies of additional countries. In addition, we incur a portion of our operating expenses in Great British Pounds and Euros and, to a much lesser extent, in Australian Dollars, Canadian Dollars, Chinese Yuan, Danish Krone, Hong Kong Dollars, Indian Rupees, Israeli New Shekels, Japanese Yen, New Zealand Dollars, and Swedish Krona. Further, our overseas subsidiaries' results are also impacted by exchange rates affecting the carrying value of U.S. Dollar denominated intercompany loans with us. Any fluctuation in the exchange rate of these foreign currencies may negatively impact our business, financial condition and operating results. We have not previously engaged in foreign currency hedging. If we decide to hedge our foreign currency exposure, we may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported operating results.

A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Our investment portfolio is subject to general credit, liquidity, counterparty, market and interest rate risks, any of which could impair the market value of our investments and harm our financial results.

At December 31, 2013, we had \$109.6 million in cash and cash equivalents and \$199.9 million in short-term and long-term investments, consisting of corporate bonds, money market funds backed by United States Treasury Bills, and U.S. treasury and agency securities. Although we follow an established investment policy and set of guidelines to manage our investment portfolio, our investments are subject to general credit, liquidity, counterparty, market and interest rate risks, which have been exacerbated by the recent financial and credit crisis, rising bankruptcy filings in the United States, and the ongoing debt-ceiling debate.

Because the market value of fixed-rate debt securities may be adversely impacted by a rise in interest rates, our future investment income may fall short of expectations if interest rates rise. In addition, we may suffer losses if we are forced to sell securities that have experienced a decline in market value because of changes in interest rates. Currently, we do not use financial derivatives to hedge our interest rate exposure.

The fair value of our investments may change significantly due to events and conditions in the credit and capital markets. Any investment securities that we hold, or the issuers of such securities, could be subject to review for possible downgrade. Any downgrade in these credit ratings may result in an additional decline in the estimated fair value of our investments. Changes in the various assumptions used to value these securities and any increase in the perceived market risk associated with such investments may also result in a decline in estimated fair value.

In the event of adverse conditions in the credit and capital markets, and to the extent we make future investments, our investment portfolio may be impacted, and we could determine that some or all of our investments experienced an other-than-temporary decline in fair value, requiring impairment, which could adversely impact our financial position and operating results.

We may invest in companies for strategic reasons and may not realize a return on our investments.

In November 2013, we launched the Cornerstone Innovation Fund, a strategic initiative created to invest in, advise and collaborate with promising cloud startups building innovative business applications that support the continued expansion of our market reach. From time to time we may make direct investments in privately held companies. The privately held companies in which we may invest are considered inherently risky. The technologies and products these companies have under development are typically in the early stages and may never materialize, which could result in a loss of all or a substantial part of our initial investment in these companies. The evaluation of privately held companies is based on information that we request from these companies, which is not subject to the same disclosure regulations as U.S. publicly traded companies, and as such, the basis for these evaluations is subject to the timing and accuracy of the data received from these companies.

To the extent that our pre-tax income or loss becomes relatively modest, our ability to conclude that a control deficiency is not a material weakness or that an accounting error does not require a restatement could be adversely affected.

Under the Sarbanes-Oxley Act of 2002, our management is required to assess the impact of control deficiencies based upon both quantitative and qualitative factors, and depending upon that analysis we classify such identified deficiencies as either a control deficiency, significant deficiency or a material weakness. One element of our analysis of the significance of any control deficiency is its actual or potential financial impact. This assessment will vary depending on our level of pre-tax income or loss. For example, a smaller pre-tax income or loss will increase the likelihood of a quantitative assessment of a control deficiency as a significant deficiency or material weakness.

To the extent that our pre-tax income or loss is relatively small, if management or our independent registered public accountants identify an error in our interim or annual financial statements, it is more likely that such an error may be determined to be a material weakness or be considered a material error that could, depending upon the complete quantitative and qualitative analysis, result in our having to restate previously issued financial statements.

Risks Related to Tax Issues

We are a multinational organization faced with increasingly complex tax issues in many jurisdictions, and we could be obligated to pay additional taxes in various jurisdictions.

As a multinational organization, we are subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could

increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and operating results. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that

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benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and our operating results. The Internal Revenue Service had selected the U.S. federal income tax return for the year ended December 31, 2011 for examination and the audit was completed in the year ended December 31, 2013 with no material adjustments. If we are selected for future examinations that were to uncover incorrect tax positions, we could be subject to additional taxes, interest, and penalties.

Taxing authorities could reallocate our taxable income among our subsidiaries, which could increase our consolidated tax liability.

We conduct operations worldwide through subsidiaries in various tax jurisdictions pursuant to transfer pricing arrangements between our subsidiaries. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arms' length and that contemporaneous documentation is maintained to support the transfer prices. While we believe that we operate in compliance with applicable transfer pricing laws and intend to continue to do so, our transfer pricing procedures are not binding on applicable tax authorities. If tax authorities in any of these countries were to successfully challenge our transfer prices as not reflecting arm's length transactions, they could require us to adjust our transfer prices and thereby reallocate our income to reflect these revised transfer prices, which could result in a higher tax liability to us. In addition, if the country from which the income is reallocated does not agree with the reallocation, both countries could tax the same income, resulting in double taxation. If tax authorities were to allocate income to a higher tax jurisdiction, subject our income to double taxation or assess interest and penalties, it would increase our consolidated tax liability, which could adversely affect our financial condition, operating results and cash flows.

Our ability to use net operating loss carryforwards to reduce future tax payments may be limited if we experience a change in ownership, or if taxable income does not reach sufficient levels.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change" (generally defined as a greater than 50% change (by value) in its equity ownership over a three year period), the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes (such as research tax credits) to offset its post-change income may be limited. We may experience ownership changes in the future and subsequent shifts in our stock ownership. As a result, we may be limited in the portion of net operating loss carryforwards that we can use in the future to offset taxable income for U.S. Federal income tax purposes.

Risks Related to Ownership of our Common Stock

The trading price of our common stock may be volatile.

The trading price of our common stock has at times been volatile and could continue to be subject to significant fluctuations in response to various factors, some of which are beyond our control. In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the companies operating in such markets. The market price of our common stock may be similarly volatile, and investors in our common stock may experience a decrease in the value of their shares, including as a result of factors unrelated to our operating performance and prospects. The market price of our common stock could be subject to wide fluctuations in response to a number of factors, including:

- our operating performance and the performance of other similar companies;
- the overall performance of the equity markets;
- developments with respect to intellectual property rights;
- publication of unfavorable research reports about us or our industry or withdrawal of research coverage by securities analysts;
- speculation in the press or investment community;
- the size of our public float;
- natural disasters or terrorist acts;
- announcements by us or our competitors of significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments; and
- global economic, legal and regulatory factors unrelated to our performance.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, the market price of our common stock and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrade our common stock or publish incorrect or unfavorable research about our business, the market price of our common stock would likely decline. In addition, if one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our common stock could decrease, which could cause the market price of our stock or trading volume to decline.

The issuance of additional stock in connection with acquisitions, our stock incentive plans or otherwise will dilute all other stockholdings.

Our certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of common stock and up to 50,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue all of these shares that are not already outstanding without any action or approval by our stockholders. We intend to continue to evaluate strategic acquisitions in the future. We may pay for such acquisitions, partly or in full, through the issuance of additional equity. Any issuance of shares in connection with our acquisitions, the exercise of stock options, the vesting of restricted stock units or otherwise would dilute the percentage ownership held by existing investors.

Conversion of our convertible notes may dilute the ownership interest of existing stockholders, including holders who had previously converted their notes, or may otherwise depress the price of our common stock.

The conversion of some or all of our convertible notes will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our common stock could depress the price of our common stock.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future.

Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Anti-takeover provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company.

Our certificate of incorporation, bylaws and Delaware law contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- authorize “blank check” preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- create a classified board of directors whose members serve staggered three-year terms;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of the board, the chief executive officer or the president;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require supermajority votes of the holders of our common stock to amend specified provisions of our charter documents.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal offices are located in Santa Monica, California, where we occupy approximately 81,000 square feet of office space under one operating lease that expires in January 2019. We have additional established offices in Auckland, Hong Kong, London, Mumbai, Munich, Madrid, Paris, Rome, Sydney, Tel Aviv, and Tokyo to support our international operations. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate planned expansion of our operations. Our foreign subsidiaries lease office space for their operations, including their local sales and professional services personnel.

Item 3. Legal Proceedings

From time to time, we are involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors. In addition, it is possible that an unfavorable resolution of one or more such proceedings could in the future materially and adversely affect our financial position, results of operations or cash flows in a particular period.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Our Common Stock and Related Stockholder Matters

Our common stock has been traded on the NASDAQ Global Market under the symbol "CSOD" since March 17, 2011. Prior to that time, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low closing sale prices for our common stock as reported on the NASDAQ Global Market.

| | Fiscal 2012 | | Fiscal 2013 | |
|----------------|-------------|---------|-------------|---------|
| | High | Low | High | Low |
| First Quarter | \$22.13 | \$17.58 | \$35.29 | \$29.84 |
| Second Quarter | 23.81 | 18.26 | 45.67 | 31.35 |
| Third Quarter | 30.94 | 22.33 | 54.60 | 43.90 |
| Fourth Quarter | 32.33 | 26.03 | 53.31 | 45.55 |

Holders of Record

As of January 31, 2014 there were 44 holders of record of our common stock. Because many of our shares of common stock are held of record by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by such record holders.

Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

STOCK PRICE PERFORMANCE GRAPH

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Cornerstone OnDemand, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph compares (i) the cumulative total stockholder return on our common stock from March 17, 2011 through December 31, 2013 with (ii) the cumulative total return of the NASDAQ Global Market Index and (iii) the NASDAQ Computer & Data Processing Index over the same period, assuming the investment of \$100 in our common stock and in both of the other indices on March 17, 2011 and the reinvestment of all dividends. As discussed above, we have never declared or paid a cash dividend on our common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future.

COMPARISON OF CUMULATIVE TOTAL RETURN OF CORNERSTONE ONDEMAND*

* Returns are based on historical results and are not necessarily indicative of future performance. See the disclosure in Part I, Item 1A. "Risk Factors."

| | March 17, 2011 | December 31, 2011 | December 31, 2012 | December 31, 2013 |
|---|-------------------|----------------------|----------------------|----------------------|
| Cornerstone OnDemand | \$100.00 | \$95.65 | \$154.85 | \$279.55 |
| NASDAQ Global Market Index | \$100.00 | \$86.60 | \$100.04 | \$166.92 |
| NASDAQ Computer & Data Processing Index | \$100.00 | \$101.97 | \$114.69 | \$151.33 |

The comparisons shown in the graph are based upon historical data. We caution that the stock price performance shown in the graph above is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

Equity Compensation Plan Information

The information required by this item will be included under the caption "Equity Compensation and Plan Information" in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013, and is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

The statement of operations data for the three years ended December 31, 2013, 2012, and 2011 and the balance sheet data at December 31, 2013 and 2012, respectively, are derived from, and qualified by reference to, our audited financial statements included elsewhere in this Annual Report on Form 10-K. The statements of operations data for the two years ended December 31, 2010 and 2009 and the balance sheet data at December 31, 2011, 2010 and 2009, respectively, are derived from our audited financial statements not included in this Annual Report on Form 10-K. The selected consolidated financial data below are not necessarily indicative of future performance and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K.

| | Years Ended December 31, | | | | |
|--|--------------------------|-------------|-------------|-------------|-------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (in thousands) | | | | |
| Consolidated statements of operations data: | | | | | |
| Gross revenue ⁽¹⁾ | \$ 185,129 | \$ 117,914 | \$ 75,522 | \$ 46,608 | \$ 29,322 |
| Common stock warrant charge ⁽¹⁾ | — | — | (2,500) | (2,877) | — |
| Net revenue | 185,129 | 117,914 | 73,022 | 43,731 | 29,322 |
| Cost of revenue | 53,548 | 34,591 | 21,285 | 14,280 | 8,676 |
| Gross profit | 131,581 | 83,323 | 51,737 | 29,451 | 20,646 |
| Operating expenses: | | | | | |
| Sales and marketing | 109,737 | 73,563 | 45,773 | 28,134 | 18,886 |
| Research and development | 21,260 | 14,886 | 10,149 | 5,602 | 2,791 |
| General and administrative | 33,572 | 25,912 | 15,122 | 8,555 | 4,329 |
| Amortization of certain acquired intangible assets | 1,004 | 739 | — | — | — |
| Total operating expenses | 165,573 | 115,100 | 71,044 | 42,291 | 26,006 |
| Loss from operations | (33,992) | (31,777) | (19,307) | (12,840) | (5,360) |
| Other income (expense): | | | | | |
| Interest income (expense) and other income (expense), net | (6,562) | (402) | (1,853) | (1,320) | (813) |
| Change in fair value of preferred stock warrant liabilities ⁽²⁾ | — | — | (42,559) | (34,073) | (2,147) |
| Loss before provision for income taxes | (40,554) | (32,179) | (63,719) | (48,233) | (8,320) |
| Income tax benefit (provision) | 128 | 789 | (181) | (137) | (72) |
| Net loss | \$(40,426) | \$(31,390) | \$(63,900) | \$(48,370) | \$(8,392) |
| Accretion of redeemable preferred stock | — | — | (5,208) | (8,235) | (2,072) |
| Net loss attributable to common stockholders | \$(40,426) | \$(31,390) | \$(69,108) | \$(56,605) | \$(10,464) |
| Net loss per share attributable to common stockholders, basic and diluted ⁽³⁾ | \$(0.79) | \$(0.63) | \$(1.74) | \$(6.15) | \$(1.24) |
| Weighted average common shares outstanding, basic and diluted | 51,427 | 49,929 | 39,824 | 9,206 | 8,467 |

(1) During the second quarter of 2011 and the fourth quarter of 2010, we recorded a \$2.5 million and \$2.9 million reduction of revenue, respectively, associated with common stock warrants. There were no such reductions of revenue in any other periods presented. We have presented gross revenue excluding non-cash common stock warrant charges because these charges do not relate to sales activity in the period, and we do not consider the

issuance of warrants to be indicative of our core operating performance. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Offsets to Revenue” for additional information about common stock warrants that are accounted for as reductions of revenue.

In connection with our IPO in March 2011, all of our warrants to purchase shares of preferred stock were exercised, and all outstanding shares of preferred stock were converted into shares of common stock on a (2) one-for-one basis. At that time, the preferred stock warrant liabilities were reclassified to additional paid-in capital. As a result after the first quarter of 2011, we no longer record any change in the fair value of these liabilities in our statements of operations.

(3) See Note 2 and Note 4 to our consolidated financial statements for a description of the method used to compute basic and diluted net loss per share attributable to common stockholders.

| | At December 31, | | | | |
|---|-----------------|-----------|-----------|----------|----------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (in thousands) | | | | |
| Consolidated balance sheet data: | | | | | |
| Cash and cash equivalents | \$ 109,583 | \$ 76,442 | \$ 85,409 | \$ 7,067 | \$ 8,061 |
| Property and equipment, net | 14,436 | 7,947 | 3,663 | 3,976 | 2,229 |
| Working capital, excluding deferred revenue | 369,499 | 115,294 | 112,094 | 18,889 | 14,399 |
| Total assets | 451,355 | 171,834 | 135,362 | 42,894 | 27,017 |
| Debt, current portion | 519 | 916 | 265 | 14 | 2,014 |
| Deferred revenue, current and non-current portion | 138,822 | 92,252 | 55,880 | 33,818 | 19,507 |
| Capital lease obligations, net of current portion | 218 | 1,227 | 1,056 | 1,523 | 1,158 |
| Debt, net of current portion | 218,357 | 1,836 | 409 | 8,705 | 4,045 |
| Preferred stock warrant liabilities | — | — | — | 39,756 | 5,683 |
| Convertible preferred stock | — | — | — | 42,089 | 33,854 |
| Total stockholders' equity (deficit) | 52,895 | 46,648 | 62,460 | (97,231) | (45,378) |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read together with the financial statements and the related notes set forth in Item 8. "Financial Statements and Supplementary Data." The following discussion also contains forward-looking statements that involve a number of risks and uncertainties. See Part I, "Special Note Regarding Forward-Looking Statements" for a discussion of the forward-looking statements contained below and Part I, Item 1A. "Risk Factors" for a discussion of certain risks that could cause our actual results to differ materially from the results anticipated in such forward-looking statements.

Overview

We are a leading global provider of comprehensive talent management solutions delivered as software-as-a-service, or SaaS. We enable organizations to meet the challenges they face in empowering their people and maximizing the productivity of their human capital. These challenges include hiring and developing employees throughout their careers, engaging all employees effectively, improving business execution, cultivating future leaders and enabling an organization's extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content.

Our core solution is a comprehensive and integrated cloud-based suite consisting of four integrated clouds for recruiting, learning, performance, and extended enterprise. Clients can purchase these clouds individually and easily add and integrate additional clouds at any time. We offer a number of cross-cloud tools for analytics and reporting, employee profile management, employee on-boarding and e-learning content aggregation. We also provide consulting services for configuration and training for our core solution as well as third-party e-learning content for use with the solution. We target our sales and marketing efforts for these four integrated clouds to large and mid-sized clients with 400 or more employees, and our core solution can be used in multiple industry vertical segments. After the initial purchase of our core solution, we continue to market and sell to our existing clients, who may renew their subscriptions, add additional clouds, broaden the deployment of the solution across their organizations and increase

usage of the solution over time. We currently have over 1,600 clients who use our core solution to empower more than 14 million users across 191 countries and 41 languages. For 2013 and 2012, no single client or distributor accounted for more than 10% of our revenue. The number of clients using our core solution has grown from 105 at December 31, 2007 to 805 at December 31, 2011 to 1,237 at December 31, 2012 and to 1,631 at December 31, 2013.

In addition to our core solution, we also offer Cornerstone Small Business, or CSB, a cloud-based talent management solution that is targeted to clients with less than 400 employees. We also offer Cornerstone for Salesforce, a

cloud-based talent management solution developed natively on the Salesforce.com platform, which allows organizations to provide seamless access to sales enablement and just-in-time training from within the Salesforce.com platform. We currently do not include the number of clients and users of our CSB and Cornerstone for Salesforce solutions in our client and user key metrics as we believe the client and user count metrics for our core solution gives a better indication of our overall performance.

We generate most of our revenue from the sale of our solutions pursuant to multi-year client agreements. Our sales processes are typically competitive, and sales cycles generally vary in duration from two to nine months depending on the size of the potential client. We price our core solution based on the number of clouds purchased and the permitted number of users with access to each cloud. Client agreements for our core solution typically have terms of three years. We also generate revenue from consulting services for configuration, training, and consulting, as well as from the resale or hosting of third-party e-learning content.

We sell our solutions through our direct sales teams and, to a lesser extent, indirectly through our distributors. We intend to continue to invest in our direct sales and distribution activities to address our market opportunity.

We generally recognize revenue from subscriptions ratably over the term of the client agreement and revenue from consulting services as the services are performed. In certain instances, our clients request enhancements to the underlying features and functionality of our core solution, and in these instances, revenue from subscriptions is recognized over the remaining term of the agreement once the additional features are delivered to the client. We generally invoice our clients a portion of the annual subscription fees upfront for multi-year subscriptions and upfront for consulting services. For amounts not invoiced in advance for multi-year subscriptions or consulting services, we invoice under various terms over the subscription and service periods. We record amounts invoiced for annual subscription periods that have not occurred or services that have not been performed as deferred revenue on our balance sheet. With the growth in the number of clients, our revenue has grown to \$185.1 million for the year ended December 31, 2013 from \$117.9 million for the same period in 2012.

We have historically experienced seasonality in terms of when we enter into client agreements. We sign a significantly higher percentage of agreements with new clients, as well as renewal agreements with existing clients, in the fourth quarter of each year. In addition, within a given quarter, we sign a large portion of these agreements during the last month, and often the last two weeks, of that quarter. We believe this seasonality is driven by several factors, most notably the tendency of procurement departments at our enterprise clients to purchase technology at the end of a quarter or calendar year, possibly in order to use up their available quarterly or annual funding allocations, or to be able to deploy new talent management capabilities prior to the beginning of a new financial or performance period. As the terms of most of our client agreements are measured in full year increments, agreements initially entered into the fourth quarter or last month of any quarter will generally come up for renewal at that same time in subsequent years. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of the client agreement, which is generally three years. In addition, this seasonality is reflected in changes in our deferred revenue balance, which generally is impacted by the timing of when we enter into agreements with new clients, the timing of when we invoice new clients, the timing of when we invoice existing clients for annual subscription periods, and the timing of when we recognize revenue. We expect this seasonality to continue in the future, which may cause fluctuations in certain of our operating results and financial metrics, and thus limit our ability to predict future results.

We believe the market for talent management remains large and underpenetrated, providing us with significant growth opportunities. We expect businesses and other organizations to continue to increase their spending on talent management solutions in order to maximize the productivity of their employees, manage changing workforce demographics and ensure compliance with global regulatory requirements. Historically, many of these software solutions have been human resource applications running on hardware located on organizations' premises. However, we believe that just as organizations have increasingly chosen SaaS solutions for business applications such as sales force management, they are also increasingly adopting SaaS talent management solutions.

We have focused on growing our business to pursue what we believe is a significant market opportunity, and we plan to continue to invest in building for growth. As a result, we expect our cost of revenue and operating expenses to increase in future periods. Sales and marketing expenses are expected to increase, as we continue to expand our direct

sales teams, increase our marketing activities, and grow our international operations. Research and development expenses are expected to increase as we continue to improve the existing functionality for our solutions. We also believe that we must invest in maintaining a high degree of client service and support that is critical for our continued success. We plan to continue our policy of implementing best practices across our organization, expanding our technical operations and investing in our network infrastructure and services capabilities in order to support continued future growth. We also

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expect to incur additional general and administrative expenses as a result of our growth. In addition, to the extent that we make additional strategic acquisitions in the future, like our acquisition of Sonar, our investments in operations may increase.

Our operating results have fluctuated in the past and may continue to fluctuate in the future based on a number of factors, many of which are beyond our control. In addition to those in the “Risk Factors” section of this Annual Report on Form 10-K, such factors include:

- our ability to attract new clients;
- the timing and rate at which we enter into agreements for our solutions with new clients;
- the timing and duration of our client implementations, which is often outside of our direct control, and our ability to provide resources for client implementations and consulting projects;
- the extent to which our existing clients renew their subscriptions for our solutions and the timing of those renewals;
- the extent to which our existing clients purchase additional clouds or add incremental users;
- the extent to which our clients request enhancements to underlying features and functionality of our solutions and the timing for us to deliver the enhancements to our clients;
- changes in the mix of our sales between new and existing clients;
- changes to the proportion of our client base that is comprised of enterprise or mid-sized organizations;
- seasonal factors affecting the demand for our solutions;
- the timing of our client implementations;
- our ability to manage growth, including in terms of new clients, additional users and new geographies;
- the timing and success of competitive solutions offered by our competitors;
- changes in our pricing policies and those of our competitors; and
- general economic and market conditions.

One or more of these factors may cause our operating results to vary widely. As such, we believe that our results of operations may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance.

Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Revenue. We generally recognize subscription revenue over the contract period, and as a result of our revenue recognition policy and the seasonality of when we enter into new client agreements, revenue from client agreements signed in the current period may not be fully reflected in the current period. As a result, revenue increases period over period are primarily from contracts that existed prior to the beginning of that period. Gross revenue in the year ended December 31, 2011, excludes the impact of a non-cash reduction of revenue related to a common stock warrant issued to ADP of \$2.5 million. Net revenue for the year ended December 31, 2011 was impacted by this non-cash reduction of revenue. There were no such reductions of revenue in the years ended December 31, 2013 and 2012, and as such, net revenue was equal to gross revenue for those periods.

Bookings. Under our revenue recognition policy, we generally recognize subscription revenue from our client agreements ratably over the terms of those agreements. For this reason, the major portion of our revenue for a period will be from client agreements signed in prior periods rather than from new business activity during the current period. In order to assess our business performance with a metric that more fully reflects current period business activity, we track bookings, which is a non-GAAP financial measure we define as the sum of revenue and the change in the deferred revenue balance for the period. We include changes in the deferred revenue balance to calculate bookings so it better reflects new business activity in the period as evidenced by prepayments or billings under our billing policies arising from acquisition of new clients, sales of additional clouds to existing clients, the addition of incremental users by existing clients and client renewals. We excluded the non-cash reduction of revenue related to the issuance of common stock warrants in the second quarter of 2011 because these charges did not relate to sales activity in that period, and we did not consider the issuance of such warrants to have been indicative of our core operating performance. Bookings are affected by our billing terms, and any changes in those billing terms may shift bookings between periods. Due to the seasonality of our sales, bookings growth is inconsistent from quarter to quarter

throughout a calendar year. For a reconciliation of bookings to revenue, please see “Results of Operations – Revenue and Metrics.”

Annual dollar retention rate. We define annual dollar retention rate as the implied monthly recurring revenue under client agreements at the end of a fiscal year, divided by the implied monthly recurring revenue, for that same client base, at the end of the prior fiscal year and excluding implied monthly recurring revenue from clients of our CSB and Cornerstone for Salesforce solutions. This ratio does not reflect implied monthly recurring revenue for new clients added between the end of the prior fiscal year and the end of the current fiscal year. Beginning in 2013, incremental sales up to and not exceeding the original renewal amount to the existing client base are included in this ratio. We define implied monthly recurring revenue as the total amount of minimum recurring revenue to which we have a contractual right under each of our client agreements over the entire term of the agreement, but excluding non-recurring support, consulting and maintenance fees, divided by the number of months in the term of the agreement. Implied monthly recurring revenue is substantially comprised of subscriptions to our core solution. We believe that our annual dollar retention rate is an important metric to measure the long-term value of client agreements and our ability to retain our clients.

Number of clients. We believe that our ability to expand our client base is an indicator of our market penetration and the growth of our business as we continue to invest in our direct sales teams and distributors. Our client count includes contracted clients for any combination of the four integrated clouds for our core solution as of the end of the period and excludes clients of our CSB and Cornerstone for Salesforce solutions.

Number of users. Since our clients generally pay fees based on the number of users of our solutions within their organizations, we believe the total number of users is an indicator of the growth of our business. Our user count includes active users for our core solution and excludes users of our CSB and Cornerstone for Salesforce solutions.

Key Components of Our Results of Operations

Sources of Revenue and Revenue Recognition

Our solutions are designed to enable organizations to meet the challenges they face in maximizing the productivity of their human capital. We generate revenue from the following sources:

Subscriptions to Our Solutions. Clients pay subscription fees for access to our solutions for a specified period of time, typically three years for our core solution or monthly, annual, or three-year periods for our CSB and Cornerstone for Salesforce solutions. Fees are based on a number of factors, including the number of users having access to a solution. We generally recognize revenue from subscriptions ratably over the term of the agreements.

Consulting Services. We offer our clients assistance in implementing our solutions and optimizing their use.

Consulting services include application configuration, system integration, business process re-engineering, change management and training services. Services are billed either on a time-and-material or a fixed-fee basis. These services are generally purchased as part of a subscription arrangement and are typically performed within the first several months of the arrangement. Clients may also purchase consulting services at any other time. Our consulting services are performed by us directly or by third-party service providers we engage. Clients may also choose to perform these services themselves or engage their own third-party service providers. We generally recognize revenue from fixed fee consulting services using the proportional performance method over the period the services are performed and as time is incurred for time-and-material arrangements.

E-learning Content. We resell third-party on-line training content, which we refer to as e-learning content, to our clients. We also host other e-learning content provided by our clients. We generally recognize revenue from the resale of e-learning content as it is delivered and recognize revenue from hosting as the hosting services are provided.

Our client agreements generally include both a subscription to access our solutions and related consulting services, and may also include e-learning content. Our agreements generally do not contain any cancellation or refund provisions other than in the event of our default.

Cost of Revenue

Cost of revenue consists primarily of costs related to hosting our solutions; personnel and related expenses, including stock-based compensation, for network infrastructure, IT support, consulting services and on-going client support; payments to external service providers; amortization of capitalized software costs, amortization of developed technology and software license rights; licensing fees; and referral fees. In addition, we allocate a portion of overhead, such as rent, IT costs, depreciation and amortization and employee benefits costs, to cost of revenue based on headcount. The costs associated with providing consulting services are significantly higher as a percentage of revenue

than the costs associated with providing access to our solutions due to the labor costs to provide the consulting services.

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Operating Expenses

Our operating expenses are as follows:

Sales and Marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including salaries, benefits, bonuses, stock-based compensation and commissions; costs of marketing and promotional events, corporate communications, online marketing, product marketing and other brand-building activities; and allocated overhead.

We intend to continue to invest in sales and marketing and expect spending in these areas to increase as we continue to expand our business both domestically and internationally. We expect sales and marketing expenses to continue to be among the most significant components of our operating expenses.

Research and Development. Research and development expenses consist primarily of personnel and related expenses for our research and development staff, including salaries, benefits, bonuses and stock-based compensation; the cost of certain third-party service providers; and allocated overhead. Research and development costs, other than software development costs qualifying for capitalization, are expensed as incurred.

We have focused our research and development efforts on continuously improving our solutions. We believe that our research and development activities are efficient because we benefit from maintaining a single software code base for each of our solutions. We expect research and development expenses to increase in absolute dollars in the future, as we scale our research and development department and expand our network infrastructure.

General and Administrative. General and administrative expenses consist primarily of personnel and related expenses for administrative, legal, finance and human resource staffs, including salaries, benefits, bonuses and stock-based compensation; professional fees; insurance premiums; other corporate expenses; and allocated overhead. We expect our general and administrative expenses to increase as we continue to expand our operations.

Amortization of Certain Acquired Intangible Assets. Amortization of certain acquired intangibles consists of amortization of Sonar acquisition-related intangibles, including customer relationships, non-compete agreements, patents, trade names and trademarks. We also record amortization of developed technology and software license rights in cost of revenue.

Other Income (Expense)

Interest Income. Interest income consists primarily of interest income from investment securities partially offset by amortization of investment premiums. We expect interest income to increase as a result of our investments in marketable securities, which include corporate and agency bonds, in the year ended December 31, 2013.

Interest Expense. Interest expense consists primarily of interest expense from our promissory notes, convertible debt, capital lease payments, accretion of debt discount, and amortization of debt issuance costs.

Change in Fair Value of Preferred Stock Warrant Liabilities. Preferred stock warrant liabilities are the result of warrants issued prior to our initial public offering in connection with long-term debt and preferred stock financings.

Changes in the fair value of our preferred stock occurred in connection with changes in the overall value of our company. Immediately prior to the completion of our initial public offering, all of our warrants to purchase preferred stock were exercised, and as a result, we no longer record any changes in the fair value of these liabilities in our statements of operations.

Withdrawn Secondary Offering Expense. On July 20, 2011, we filed a Registration Statement on Form S-1 in connection with a proposed secondary offering of shares of our common stock. On August 8, 2011, pursuant to Rule 477 under the Securities Act of 1933, as amended, we requested that the Securities and Exchange Commission consent to the withdrawal of the Registration Statement. During the year ended December 31, 2011, we incurred expenses of approximately \$0.6 million in connection with the proposed secondary offering.

Other, Net. Other, net consists of income and expense associated with fluctuations in foreign currency exchange rates and other non-operating expenses. We expect interest income (expense) and other income (expense) to vary depending on the movement in foreign currency exchange rates and the related impact on our foreign exchange gain (loss).

Income Tax Benefit (Provision)

The income tax benefit is related to amortization of deferred tax liabilities assumed as part of the Sonar acquisition, partially offset by minimum and franchise state taxes and foreign taxes. As we have historically recorded a full valuation allowance against our United States and United Kingdom net deferred tax assets, we have not historically recorded a provision for United States and United Kingdom income taxes. Certain foreign subsidiaries and branches of ours provide

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intercompany services and are compensated on a cost-plus basis, and therefore, have incurred liabilities for foreign income taxes in their respective jurisdictions.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, provision for income taxes and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We believe that the following critical accounting policies involve a greater degree of judgment or complexity than our other accounting policies. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition and Deferred Revenue

We recognize revenue when: (i) persuasive evidence of an arrangement for the sale of our solutions or consulting services exists, (ii) our solutions have been made available or delivered, or our services have been performed, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. The timing and amount we recognize as revenue is determined based on the facts and circumstances of each client arrangement. Evidence of an arrangement consists of a signed client agreement. We consider that delivery of our software has commenced once we provide the client with log-in information to access and use our solutions. If non-standard acceptance periods or non-standard performance criteria exist, revenue recognition commences upon the satisfaction of the acceptance or performance criteria, as applicable. Our fees are fixed based on stated rates specified in each client agreement. We assess collectability based in part on an analysis of the creditworthiness of each client, as well as other relevant economic or financial factors. If we do not consider collection reasonably assured, we defer the revenue until the fees are actually collected. We record amounts that have been invoiced to our clients in accounts receivable and as either deferred revenue on our balance sheet or revenue on our statement of operations, depending on whether the revenue recognition criteria have been met.

The majority of our client arrangements include multiple deliverables, such as subscriptions to our software solutions accompanied by consulting services. Therefore, we recognize revenue in accordance with the guidance for arrangements with multiple deliverables under Accounting Standards Update 2009-13 “Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements—a Consensus of the Emerging Issues Task Force,” or ASU 2009-13 (formerly known as EITF 08-1, “Revenue Arrangements with Multiple Deliverables”). As our clients do not have the right to the underlying software code of our solutions, our revenue arrangements are outside the scope of software client recognition guidance.

For such arrangements, we first assess whether each deliverable has value to the client on a standalone basis. Our solutions have standalone value because once we give a client access, they are fully functional and do not require any additional development, modification or customization. Our consulting services have standalone value because third-party service providers, distributors or our clients themselves can perform these services without our involvement. The consulting services we provide are to assist clients with the configuration and integration of our solutions. The performance of these services does not require highly specialized individuals.

Based on the standalone value of our deliverables, and, since clients generally do not have a right of return with respect to the included consulting services, we allocate revenue among the separate deliverables under the relative selling price method using the selling price hierarchy established in ASU 2009-13. This hierarchy requires the selling price of each deliverable in a multiple deliverables arrangement to be based on, in descending order of preference, (i) vendor-specific objective evidence of fair value, or VSOE, (ii) third-party evidence of fair value, or TPE, or (iii) management’s best estimate of the selling price, or BESP.

We are not generally able to determine VSOE or TPE for our deliverables because we sell them separately and within a sufficiently narrow price range only infrequently, and because we have determined that there are no third-party offerings reasonably comparable to our solutions. Accordingly, we determine the selling prices of subscriptions to our solutions, consulting services and e-learning content based on BESP. In determining BESP for subscriptions to our solutions, we consider the size of client arrangements, as measured by number of users; whether the sales were made by

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our direct sales team or distributors; and whether the sales are to a domestic or an international client. We group sales of our solutions into multiple categories based on these criteria. We then compute an average selling price for each group. This average selling price represents our BESP for that type of client arrangement. For consulting services, we analyze both bundled arrangements that include subscriptions to our solutions and consulting services, as well as standalone purchases of different types of consulting services made subsequent to the original subscription. For these consulting services arrangements, we then examine the actual rate per hour we charge or, for fixed fee arrangements, the implied average rate per hour based on the fixed fee divided by the estimated hours to complete the service. The BESP is then the product of this average rate per hour and our estimate of the hours needed to complete the services. In evaluating and arriving at BESP for consulting services, we also consider the reasonableness of the implied gross margins, as indicated by our internal costs to deliver such services, as well as comparisons to rates per hour for information technology consulting services in our industry generally. For e-learning content, we estimate BESP by reviewing fees for content in order to establish an average annual fee per user that reflects the cost we incur to acquire the related content from third-party providers. Additionally, we estimate BESP by reviewing fees for content-hosting by reviewing the selling price of gigabytes sold in order to establish a fee on a per user or bandwidth basis.

The determination of BESP for our deliverables as described above requires us to make significant estimates and judgments, including the comparability of different subscription arrangements and consulting services and estimates of the hours required to complete various types of services. In addition, we consider other factors including:

- Nature of the deliverables. For example, in categorizing our subscriptions into meaningful groupings for determining BESP, we consider the number and type of clouds the client purchased. For consulting services, we consider the type of consulting service and the estimated hours required to complete the service based on our historical experience.
- Location of our clients. Our pricing is different for domestic and international clients, and therefore in determining BESP of subscriptions to our solutions, we evaluate domestic arrangements separately from international arrangements.

- Market conditions and competitive landscape for the sale. Our pricing and discounting varies based on the economic environment and competition. We consider these factors in determining the grouping of comparable services and the periods over which we compare arrangements to compute the BESP.

- Internal costs. Our pricing for consulting services and e-learning content considers our internal costs to provide the consulting services and the third-party purchase costs of e-learning content.

- Size of the arrangement. Discounting generally increases as the relative size of an arrangement increases, and we take this into consideration in the grouping of our clients to determine BESP. Our discounting for multiple-deliverable arrangements varies based on the extent and type of the consulting services and content included with the subscriptions in the arrangement.

The determination of BESP is made through consultation with, and formal approval by, our senior management. We update our estimates of BESP on an ongoing basis as events and circumstances require, and we update our determination to use BESP on a semi-annual basis, including assessing whether we can determine VSOE or TPE.

After we determine the fair value of revenue allocable to each deliverable based on the relative selling price method, we recognize the revenue for each based on the type of deliverable. For subscriptions to our solutions, we recognize the revenue on a straight-line basis over the term of the client agreement, which is typically three years. For consulting services, we generally recognize revenue using the proportional performance method over the period the services are performed.

In a limited number of cases, multiple deliverable arrangements may include consulting services that do not have value on a standalone basis separate from a solution, such as when the client's intended use of a solution requires enhancements to its underlying features and functionality. In these cases, revenue is recognized as one unit of accounting on a straight-line basis from the point at which the consulting services that do not have value on a standalone basis have been completed and accepted by the client, through the remaining term of the agreement. For arrangements in which we resell third-party e-learning content to our clients or host client or third-party e-learning content provided by the client, we recognize revenue in accordance with accounting guidance as to when to report gross revenue as a principal and when to report net revenue as an agent. We recognize e-learning content revenue in the gross amount that we invoice our client when: (i) we are the primary obligor, (ii) we have latitude to establish the

price charged and (iii) we bear the credit risk in the transaction. For arrangements involving our sale of e-learning content, we charge our clients for the content based on pay-per-use or a fixed rate for a specified number of users and recognize the gross amount invoiced as revenue as the content is delivered. For arrangements where clients purchase e-learning content directly from a third-party, or provide it themselves, and we integrate the content into our solutions, we

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charge a hosting fee. In such cases, we recognize the amount invoiced for hosting as the content is delivered, excluding any portion we invoice that is attributable to fees the third-party charges for the content.

Offsets to Revenue

On May 6, 2009, we entered into a five-year global distributor agreement with ADP that provides ADP the right to distribute our core solution to its customers under ADP's name. In connection with the distributor agreement, we also entered into a warrant agreement to provide additional incentives to ADP. The warrant agreement provided that ADP was eligible to earn fully vested and immediately exercisable ten-year warrants to purchase between zero and 886,096 shares of our common stock at an exercise price of \$0.53 per share if ADP met specified sales targets for each contract year until the earlier of the completion of the five-year term of the distributor agreement or the completion of an initial public offering of our common stock. When ADP achieved the defined sales targets and earned a warrant for a contract year, we recorded the fair value of such warrant as a reduction of revenue. We determined the fair value of these warrants using a Black-Scholes option-pricing model, which incorporates several estimates and assumptions that are subject to significant judgment. The warrants could only be exercised immediately prior to an acquisition of our company through a reorganization, merger or consolidation; immediately prior to a sale, lease or other disposition of all of our assets; or within three years after an initial public offering.

On November 24, 2010, we amended our warrant agreement with ADP to modify certain definitions related to future sales targets, to acknowledge that no warrants would be issued for the contract year ended June 30, 2010 and to remove the anti-dilution provisions in the warrant agreement. In connection with the amendment, we issued ADP a fully vested and non-forfeitable warrant to purchase 360,000 shares of our common stock at an exercise price of \$0.01 per share, which was valued at approximately \$2.9 million as of the amendment date, using the Black-Scholes option pricing model. We recorded this amount as a reduction of revenue in the fourth quarter of 2010, as the distributor agreement provides ADP with the right to distribute our services, and we estimated that ADP would purchase additional services from us. In issuing this warrant, we considered the strategic importance of our ongoing relationship with ADP and the expected timing of the completion of our initial public offering, after which ADP would no longer be eligible to earn any warrants.

At December 31, 2010, we did not record any reduction in revenue for the contract year ending June 30, 2011, as the minimum specified sales target had not been achieved to earn the applicable warrant as of December 31, 2010.

Upon the completion of our initial public offering, ADP was no longer eligible to earn warrants under the warrant agreement. However, ADP remained eligible to earn a warrant for the partial contract year that began on July 1, 2010 and ended on March 22, 2011, the closing date of our initial public offering, if it met pro-rated specified sales targets for that period. Through the three months ended March 31, 2011, no reductions of revenue were recorded because we concluded that ADP had not met the pro-rated specified sales targets for such partial contract year based on our assessment of the contractual terms of the arrangement, and as of March 31, 2011, it was not considered probable that we would be required to issue a warrant for such partial contract year. Pursuant to the terms of the arrangement, we notified ADP that it had not earned the warrant for such partial year. ADP contended that it met the pro-rated specified sales target for the partial contract year that would entitle ADP to a warrant to purchase 443,048 shares of our common stock at an exercise price of \$0.53 per share.

During June 2011, in order to resolve a dispute with respect to this matter, we issued ADP a fully vested and non-forfeitable warrant to purchase 133,000 shares of our common stock at an exercise price of \$0.53 per share. The warrant was valued at approximately \$2.5 million using a Black-Scholes option-pricing model as of the issuance date and was recorded as a non-cash reduction of revenue in the second quarter of 2011. In connection with the issuance of the warrant described above, ADP agreed and acknowledged that it is no longer eligible to earn or receive any additional warrants exercisable for shares of our common stock pursuant to the distributor agreement. In April 2012, we amended certain provisions in our agreement with ADP and extended the term to 2017.

Commission Expense

We defer commissions paid to our sales force because these amounts are recoverable from future revenue from the non-cancelable client agreements that give rise to the commissions. We defer expense recognition upon payment and amortize expense to sales and marketing expenses over the term of the client agreement in proportion to the revenue that is recognized. Commissions are direct and incremental costs of our client agreements and generally have been paid in the periods we received payment from the client under the associated client agreement. Commencing in the fourth quarter of 2012, we pay commissions between 45 and 75 days after execution of the client agreement.

Stock-based Compensation

We account for stock-based awards granted to employees and directors by recording compensation expense based on the awards' estimated fair values. We grant stock options and restricted stock units that vest over time based on the continuing employment of the employee, as well as options and restricted stock units that vest based on meeting certain performance targets. We expect that our expense related to stock-based compensation will increase over time. We estimate the fair value of our stock-based awards as of the date of grant using the Black-Scholes option-pricing model. Determining the fair value of stock-based awards under this model requires judgment, including estimating (i) the value per share of our common stock, (ii) volatility, (iii) the term of the awards, (iv) the dividend yield and (v) the risk-free interest rate. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, based on management's judgment and subjective future expectations. These estimates involve inherent uncertainties. If any of the assumptions used in the model change significantly, stock-based compensation recorded for future awards may differ materially from that recorded for awards granted previously.

Prior to our initial public offering, given the absence of an active market for our common stock, our board of directors was required to estimate the fair value of our common stock at the time of each grant of stock-based awards. From 2007 through our initial public offering our management regularly commissioned an independent third-party valuation firm to prepare contemporaneous valuation analyses near the time of each grant to assist our board of directors in this determination.

We use the average volatility of similar publicly traded companies as an estimate for our volatility. For purposes of determining the expected term of the awards in the absence of sufficient historical data relating to stock-option exercises for our company, we apply a simplified approach in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award. The risk-free interest rate for periods within the expected life of an award, as applicable, is based on the United States Treasury yield curve in effect during the period the award was granted. Our estimated dividend yield is zero, as we have not and do not currently intend to declare dividends in the foreseeable future.

Once we have determined the estimated fair value of our stock-based awards, we recognize the portion of that value that corresponds to the portion of the award that is ultimately expected to vest, taking estimated forfeitures into account. This amount is recognized as an expense over the vesting period of the award using the straight-line method. We estimate forfeitures based upon our historical experience and, for each period, review the estimated forfeiture rate and make changes as factors affecting the forfeiture rate calculations and assumptions change.

In addition, we issued performance shares that are dependent on performance goals, established by the Board of Directors, for a predetermined period. The fair value of each performance unit and performance share awarded is equal to the fair market value of the Company's common stock at the close of the applicable performance period.

Information related to our stock-based compensation activity, including weighted-average grant date fair values and associated Black-Scholes option-pricing model assumptions associated with time-based options, is as follows:

| | Year Ended December 31, | | |
|---|-------------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Stock options granted (in thousands) | 2,394 | 2,553 | 1,674 |
| Weighted-average exercise price | \$43.32 | \$22.09 | \$13.21 |
| Weighted-average grant date fair value per share of stock options granted | \$21.52 | \$11.12 | \$7.12 |
| Weighted-average Black-Scholes model assumptions: | | | |
| Estimated fair value of common stock | \$43.32 | \$22.09 | \$13.21 |
| Estimated volatility | 51.5 | % 53.9 | % 56.9 |
| Estimated dividend yield | — | — | — |
| Expected term (years) | 6.0 | 5.8 | 6.0 |
| Risk-free rate | 1.5 | % 1.0 | % 1.7 |

As of December 31, 2013, we had approximately \$59.6 million of unrecognized employee related stock-based compensation, net of estimated forfeitures, relating to stock options that we expect to recognize over a weighted-average period of approximately 2.7 years. Unrecognized compensation expense related to nonvested restricted stock units was \$8.7 million at December 31, 2013, which is expected to be recognized as expense over the weighted-average period of 2.3 years. Additionally, during 2012, we granted certain employees performance based options and performance based restricted stock units. As of December 31, 2013, we estimate that stock options to purchase 53,714 shares of common stock and 12,892 restricted stock units are probable of vesting. Unrecognized compensation expense related to performance based options and units was \$0.4 million at December 31, 2013, which is expected to be recognized as expense over the weighted-average period of 2.0 years. The amount of compensation cost relating to performance awards may change in future periods to the extent that another target level becomes probable of achievement.

Stock-based compensation expense is expected to increase in 2014 compared to 2013 as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to continue to attract and retain employees.

Allowance for Doubtful Accounts

On a quarterly basis we evaluate the need to establish an allowance for doubtful accounts, by analyzing our clients' creditworthiness. Our evaluation and analysis includes specific identification and review of all outstanding accounts receivable balances, review of our historical collection experience with each client, and consideration of overall economic conditions, as well as of any specific facts and circumstances that may indicate that a specific client receivable is not collectible. We make judgments as to our ability to collect outstanding receivables and establish an allowance when collection becomes doubtful. At December 31, 2013 and 2012, our allowance for doubtful accounts was \$1.0 million and \$0.5 million, respectively, based on our evaluation and analysis. If our future actual collections are lower than expected, our cash flows and future results of operations could be negatively impacted.

Capitalized Software Costs

We capitalize the costs associated with software developed or obtained for internal use, including costs incurred in connection with the development of our solutions, when the preliminary project stage is completed, management has decided to make the project a part of a future offering, and the software will be used to perform the function intended. These capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, personnel and related expenses for employees who are directly associated with, and who devote time to, internal-use software projects and, when material, interest costs incurred during the development. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for upgrades and enhancements to our solutions are also capitalized. Post-configuration training and maintenance costs are expensed as incurred. Capitalized software costs are amortized to cost of revenue using the straight-line method over an estimated useful life of the software of typically three years, commencing when

the software is ready for its intended use.

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Goodwill

Goodwill is not amortized, but instead is required to be tested for impairment annually and under certain circumstances. We perform such testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or changes in circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner we use the acquired assets or the strategy we have for our overall business, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations.

As part of the annual impairment test, we conduct an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we then conduct the first step of a two-step impairment test. The first step of the test for goodwill impairment compares the fair value of the applicable reporting unit with its carrying value. Fair value is determined using a discounted cash flow method and/or prevailing earnings multiples for the reporting unit. The use of discounted cash flows requires the use of various economic, market and business assumptions in developing our internal forecasts, the useful life over which cash flows will occur, and determination of our weighted average cost of capital that reflect our best estimates when performing the annual impairment test. Judgment is required in selecting relevant earnings multiples.

If the fair value of a reporting unit is less than the reporting unit's carrying value, we perform the second step of the test for impairment of goodwill. During the second step, we compare the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. The estimate of implied fair value of goodwill may require valuations of certain internally generated and unrecognized intangible assets and other assets and liabilities. If the carrying value of the goodwill exceeds the calculated implied fair value, the excess amount will be recognized as an impairment loss.

All our goodwill is allocated to the CSB reporting unit. Based on the results of the annual impairment test, the fair value of the reporting unit exceeded its carrying value by a significant amount and therefore no impairment of goodwill existed at December 31, 2013. However, if we are unable to achieve our internal forecasts, future impairment could occur.

Intangible Assets

Identifiable intangible assets primarily consist of trade names and intellectual property and acquisition-related intangibles, including developed technology, customer relationships, non-compete agreements, patents, trade names and trademarks. We determine the appropriate useful life of our intangible assets by performing an analysis of expected cash flows of the acquired assets. Intangible assets are amortized over their estimated useful lives ranging from two to ten years, generally using the straight-line method, which approximates the pattern in which the economic benefits are consumed.

We evaluate the recoverability of our long-lived assets with finite useful lives, including intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Such triggering events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, a significant adverse change in legal factors or in the business climate, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows expected to be generated from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. We perform impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset

group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. There were no impairment charges related to the identified intangible assets in the years ended December 31, 2013 and 2012.

Investments in Marketable Securities

Our available-for-sale investments in marketable securities are recorded at fair value, with any unrealized gains and losses, net of taxes, reported as a component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred. If we determine that an other-than-temporary decline has occurred for debt securities that we do not then currently intend to sell, we recognize the credit loss component of an other-than-temporary impairment in other income (expense) and the remaining portion in other comprehensive income (loss). The credit loss component is identified as the amount of the present value of cash flows not expected to be received over the remaining term of the security, based on cash flow projections. In determining whether an other-than-temporary impairment exists, we consider: (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition and near-term prospects of the issuer of the securities; and (iii) our intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of marketable securities sold is determined based on the specific identification method and any realized gains or losses on the sale of investments are reflected as a component of interest income or expense. In addition, we classify marketable securities as current or non-current based upon the maturity dates of the securities. At December 31, 2013, we had \$199.9 million of short-term investments in marketable securities.

Senior Convertible Notes

In accounting for senior convertible notes (the "Notes") at issuance, we separated the Notes into debt and equity components pursuant to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The fair value of the debt component was estimated using an interest rate for nonconvertible debt, with terms similar to the Notes, excluding the conversion feature. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to interest expense over the term of the Notes using the interest method. The amount recorded to additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification.

Income Taxes

We use the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities, using tax rates expected to be in effect during the years in which the bases differences are expected to reverse. We record a valuation allowance when it is more likely than not that some of our net deferred tax assets will not be realized. In determining the need for valuation allowances, we consider our projected future taxable income and the availability of tax planning strategies. We have recorded a full valuation allowance to reduce our United States and United Kingdom net deferred tax assets to zero, because we have determined that it is not more likely than not that any of our United States and United Kingdom net deferred tax assets will be realized. If in the future we determine that we will be able to realize any of our United States and United Kingdom net deferred tax assets, we will make an adjustment to the allowance, which would increase our income in the period that the determination is made.

We have assessed our income tax positions and recorded tax benefits for all years subject to examination, based upon our evaluation of the facts, circumstances and information available at each period end. For those tax positions where we have determined there is a greater than 50% likelihood that a tax benefit will be sustained, we have recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where we have determined there is a less than 50% likelihood that a tax benefit will be sustained, no tax benefit has been recognized in our financial statements.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2 of notes to consolidated financial statements included in this Annual Report on Form 10-K.

Results of Operations

The following table sets forth our results of operations for each of the periods indicated (in thousands). The period-to-period comparison of financial results is not necessarily indicative of future results.

| | Year Ended | | |
|---|--------------|------------|------------|
| | December 31, | | |
| | 2013 | 2012 | 2011 |
| Gross revenue ⁽¹⁾ | \$185,129 | \$117,914 | \$75,522 |
| Common stock warrant charge ⁽¹⁾ | — | — | (2,500) |
| Net revenue | 185,129 | 117,914 | 73,022 |
| Cost of revenue | 53,548 | 34,591 | 21,285 |
| Gross profit | 131,581 | 83,323 | 51,737 |
| Operating expenses: | | | |
| Sales and marketing | 109,737 | 73,563 | 45,773 |
| Research and development | 21,260 | 14,886 | 10,149 |
| General and administrative | 33,572 | 25,912 | 15,122 |
| Amortization of certain acquired intangibles | 1,004 | 739 | — |
| Total operating expenses | 165,573 | 115,100 | 71,044 |
| Loss from operations ⁽¹⁾ | (33,992) | (31,777) | (19,307) |
| Other income (expense): | | | |
| Interest expense, net | (6,206) | (442) | (882) |
| Change in fair value of preferred stock warrant liabilities | — | — | (42,559) |
| Withdrawn secondary offering expense | — | — | (555) |
| Other, net | (356) | 40 | (416) |
| Other income (expense), net | (6,562) | (402) | (44,412) |
| Loss before income tax benefit (provision) | (40,554) | (32,179) | (63,719) |
| Income tax benefit (provision) | 128 | 789 | (181) |
| Net loss | \$(40,426) | \$(31,390) | \$(63,900) |

During the second quarter of 2011, we recorded a \$2.5 million reduction of revenue associated with common stock warrants. There were no such reductions of revenue in any other periods presented. We have presented gross revenue excluding non-cash common stock warrant charges, because these charges do not relate to sales activity in (1) the period, and we do not consider the issuance of warrants to be indicative of our core operating performance. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Offsets to Revenue” for additional information about common stock warrants that are accounted for as reductions of revenue.

The following table sets forth our revenue and key metrics that we use to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions:

| Metrics | At or For Year Ended December 31, | | |
|-------------------------------|-----------------------------------|-----------|----------|
| | 2013 | 2012 | 2011 |
| Net revenue (in thousands) | \$185,129 | \$117,914 | \$73,022 |
| Gross revenue (in thousands) | \$185,129 | \$117,914 | \$75,522 |
| Bookings (in thousands) | \$231,699 | \$154,286 | \$97,584 |
| Annual dollar retention rate | 94.6 | % 94.3 | % 94.9 |
| Number of clients | 1,631 | 1,237 | 805 |
| Number of users (in millions) | 14.1 | 10.6 | 7.5 |

Net and gross revenue increased \$67.2 million, or 57%, for the year ended December 31, 2013 as compared to the same period in 2012. The increase was primarily the result of a \$45.0 million increase in revenue from existing clients, specifically, revenue from client agreements that were entered into prior to January 1, 2013. In addition, net and gross revenue increased by \$22.2 million from the acquisition of new clients during the year ended December 31, 2013.

Net revenue increased by \$44.9 million, or 61%, for the year ended December 31, 2012 as compared to the same period in 2011. Gross revenue increased \$42.4 million, or 56%, for the year ended December 31, 2012 as compared to the same period in 2011. The increase in net and gross revenue was primarily the result of a \$27.9 million increase in revenue from existing clients, specifically, revenue from client agreements that were entered into prior to January 1, 2012. In addition, net and gross revenue increased by \$14.5 million from the acquisition of new clients during the year ended December 31, 2012 and net revenue also increased by \$2.5 million from the reduction of revenue related to a non-cash charge for a common stock warrant issued during the second quarter of 2011. See “—Critical Accounting Policies and Estimates—Fair Value of Warrants” for further discussion of common stock warrants accounted for as reductions of revenue.

Net and gross revenue generated in the United States was \$129.0 million, or 70%, of total revenue for the year ended December 31, 2013 as compared to \$81.8 million, or 69%, for the same period in 2012, resulting in a 58% increase. Net and gross revenue generated outside of the United States was \$56.1 million, or 30%, of total revenue for the year ended December 31, 2013 as compared to \$36.1 million, or 31%, for the same period in 2012, resulting in a 56% increase. Revenue generated outside of the United States increased primarily due to an increase in our sales efforts internationally. Net and gross revenue generated in the United States increased \$47.1 million and revenue generated outside of the United States increased \$20.1 million for the year ended December 31, 2013 as compared to the same period in 2012.

Net revenue in the United States for 2011 was impacted by the \$2.5 million in reduction of revenue related to the common stock warrants described above. Net revenue in the United States increased by \$31.0 million, or 61%, in 2012 as compared to 2011, while international net and gross revenue, increased by \$13.9 million, or 63%. Gross revenue in the United States increased by \$28.5 million, or 53%, in 2012 as compared to 2011. As a percentage of total net revenue, international net revenue accounted for 31% in 2012 as compared to 30% in 2011. As a percentage of total gross revenue, international gross revenue accounted for 31% in 2012 as compared 29% in 2011.

Bookings increased \$77.4 million, or 50% for the year ended December 31, 2013 as compared to the same period in 2012, reflecting the increase in revenue for the period, and an increase in deferred revenue at December 31, 2013 from December 31, 2012 compared to the increase at December 31, 2012 from December 31, 2011. The growth rates for revenue and bookings are not correlated with each other in a given period due to the seasonality of when we enter into client agreements, the varied timing of billings, the recognition generally of subscription revenue on a straight-line basis over the term of each client agreement, and the recognition of consulting revenue generally on a proportional performance basis over the period the services are performed.

As discussed above under the heading “Metrics,” bookings is a non-GAAP financial measure defined as the sum of gross revenue and the change in the deferred revenue balance for the period. Management uses bookings in analyzing its financial results and believes it is useful to investors, as a supplement to the corresponding GAAP measure, in evaluating our ongoing operational performance and trends and in comparing our financial measures with other companies in the same industry. However, it is important to note that other companies, including companies in our industry, may calculate bookings differently or not at all, which may reduce its usefulness as a comparative measure.

The following table presents a reconciliation of revenue to bookings for each of the periods presented (in thousands):

| | | |
|---------------------------------------|--------------------------------|---------------------------------|
| | Deferred Revenue Balance | Year Ended December 31, 2013 |
| Gross revenue | | \$185,129 |
| Deferred revenue at December 31, 2012 | \$92,252 | |
| Deferred revenue at December 31, 2013 | 138,822 | |
| Change in deferred revenue | | 46,570 |
| Bookings | | \$231,699 |
| | Deferred Revenue Balance | Year Ended December 31, 2012 |
| Gross revenue | | \$117,914 |
| Deferred revenue at December 31, 2011 | \$55,880 | |
| Deferred revenue at December 31, 2012 | 92,252 | |
| Change in deferred revenue | | 36,372 |
| Bookings | | \$154,286 |
| | Deferred Revenue Balance | Year Ended December 31, 2011 |
| Gross revenue | | \$75,522 |
| Deferred revenue at December 31, 2010 | \$33,818 | |
| Deferred revenue at December 31, 2011 | 55,880 | |
| Change in deferred revenue | | 22,062 |
| Bookings | | \$97,584 |

We believe our revenue and bookings growth is a result of our continued investment in and development of our direct sales and sales support teams. We believe this investment has enabled us to achieve greater sales coverage and better sales execution, as well as increase our marketing activities, which we believe have improved brand awareness and created higher demand for our solutions. We have also continued to enhance our core solution, which we believe has encouraged existing clients to add additional clouds and users.

Our number of clients increased by 32% at December 31, 2013 compared to December 31, 2012. Our number of users increased by 33% at December 31, 2013 compared to December 31, 2012. The increase in the number of clients and users is representative of continued growth of the business during the current year.

Cost of Revenue and Gross Margin

| | Year Ended December 31, | | |
|-----------------|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| | (dollars in thousands) | | |
| Cost of revenue | \$53,548 | \$34,591 | \$21,285 |
| Gross profit | \$131,581 | \$83,323 | \$51,737 |
| Gross margin | 71 | % 71 | % 71 |

Cost of revenue increased \$19.0 million, or 55%, in 2013 as compared to 2012, attributable to \$8.2 million in increased costs related to outsourced consulting services, \$6.0 million in increased employee-related costs due to higher headcount, \$1.4 million in increased amortization of capitalized software, and \$1.2 million in increased reseller and referral fees, in each case to service our existing clients and support our continued growth. We also incurred \$0.8 million in increased third-party content costs and \$0.7 million in increased allocated overhead such as rent, IT costs, depreciation and amortization and employee benefits costs. The remaining increase relates to various other costs associated with generating revenue from our clients.

Cost of revenue increased \$13.3 million, or 63%, in 2012 as compared to 2011, attributable to \$6.5 million in increased employee-related costs due to higher headcount, \$2.0 million in increased costs related to outsourced consulting services, and \$1.2 million in increased allocated overhead such as rent, IT costs, depreciation and amortization and employee benefits costs, in each case to service our existing clients and support our continued growth. We also incurred \$1.0 million in increased amortization of capitalized software, \$0.8 million in increased reseller and referral fees and \$0.6 million in increased amortization of developed technology related to intangible assets acquired in connection with our acquisition of Sonar Limited. The remaining increase relates to various other costs associated with generating revenue from our clients.

Sales and Marketing

| | Year Ended December 31, | | | |
|------------------------|-------------------------|----------|----------|---|
| | 2013 | 2012 | 2011 | |
| | (dollars in thousands) | | | |
| Sales and marketing | \$109,737 | \$73,563 | \$45,773 | |
| Percent of net revenue | 59 | % 62 | % 63 | % |

Sales and marketing expenses increased \$36.2 million, or 49%, in 2013 as compared to 2012. The increase was attributable to the expansion of our sales force and increases in marketing programs to address additional opportunities in new and existing markets. Total headcount in sales and marketing at December 31, 2013 increased compared to December 31, 2012, contributing to an increase in employee-related costs of \$24.0 million. In addition, we incurred increased costs associated with outsourced marketing programs and events of \$4.3 million, increased travel costs associated with our direct sales teams of \$3.5 million, overhead costs, such as rent, IT costs, and depreciation and amortization, of \$2.2 million, and increased costs associated with the use of sales contractors in Asia and Latin America of \$1.2 million. Sales and marketing expenses are expected to increase with the growth of our company and decrease as a percentage of revenue due to the increased leverage of our sales teams.

Sales and marketing expenses increased \$27.8 million, or 61%, in 2012 as compared to 2011. The increase was attributable to the expansion of our sales force and increases in marketing programs to address additional opportunities in new and existing markets. Total headcount in sales and marketing at December 31, 2012 increased compared to December 31, 2011, contributing to an increase in employee-related costs of \$19.6 million. In addition, we incurred increased overhead costs, such as rent, IT costs, and depreciation and amortization, of \$2.5 million, increased costs associated with outsourced marketing programs and events of \$2.5 million, and increased travel costs associated with our direct sales teams of \$1.9 million.

Research and Development

| | Year Ended December 31, | | | |
|--------------------------|-------------------------|----------|----------|---|
| | 2013 | 2012 | 2011 | |
| | (dollars in thousands) | | | |
| Research and development | \$21,260 | \$14,886 | \$10,149 | |
| Percent of net revenue | 11 | % 13 | % 14 | % |

Research and development expenses increased \$6.4 million, or 43%, in 2013 as compared to 2012. The increase was principally due to an increase in research and development headcount at December 31, 2013 compared to December 31, 2012 to maintain and improve the functionality of our solutions. As a result, we incurred increased employee-related costs of \$5.9 million. The remaining increases relate to allocated overhead costs.

Research and development expenses increased \$4.7 million, or 47%, in 2012 as compared to 2011. The increase was principally due to an increase in research and development headcount at December 31, 2012 compared to December 31, 2011 to maintain and improve the functionality of our solutions. As a result, we incurred increased employee-related costs of \$3.0 million. The remaining increases relate to allocated overhead costs.

We capitalize a portion of our software development costs related to the development and enhancements of our solutions, which are then amortized to cost of revenue. The timing of our capitalizable development and enhancement projects may affect the amount of development costs expensed in any given period. We capitalized \$7.9 million, \$5.7

million and \$3.3 million of software development costs and amortized \$4.3 million, \$2.8 million and \$1.9 million in 2013, 2012 and 2011, respectively.

General and Administrative

| | Year Ended December 31, | | | |
|----------------------------|-------------------------|----------|----------|---|
| | 2013 | 2012 | 2011 | |
| | (dollars in thousands) | | | |
| General and administrative | \$33,572 | \$25,912 | \$15,122 | |
| Percent of net revenue | 18 | % 22 | % 21 | % |

General and administrative expenses increased \$7.7 million, or 30%, in 2013 as compared to 2012. The increase was driven by higher costs to support our growing business. We incurred increased employee-related costs of \$4.6 million as a result of increased headcount and stock-based compensation awards at December 31, 2013 compared to December 31, 2012. In addition, we incurred increased software license subscription fees of \$1.6 million. General and administrative expenses are expected to increase with the growth of our company.

General and administrative expenses increased \$10.8 million, or 71%, in 2012 as compared to 2011. The increase was driven by higher employee-related costs to support our growing business. We incurred increased employee-related costs of \$5.8 million as a result of increased headcount and stock-based compensation awards at December 31, 2012 compared to December 31, 2011. In addition, we incurred increased professional fees of \$2.3 million for accounting, audit, legal and tax services, increased subscription fees of \$0.6 million, and increased expenses related to travel and entertainment of \$0.6 million.

Amortization of certain acquired intangible assets

| | Year Ended December 31, | | |
|--|-------------------------|-------|------|
| | 2013 | 2012 | 2011 |
| | (dollars in thousands) | | |
| Amortization of certain acquired intangible assets | \$1,004 | \$739 | \$— |

Amortization of acquired intangibles increased \$0.3 million for the year ended December 31, 2013 as compared to the same period in 2012 due to the amortization of intangible assets acquired through the April 2012 acquisition of Sonar. The following table presents our estimate of remaining amortization expense for each of the five succeeding fiscal years for finite-lived intangible assets that existed at December 31, 2013 (in thousands):

| | |
|-------|---------|
| 2014 | \$2,078 |
| 2015 | 1,840 |
| 2016 | 555 |
| 2017 | 146 |
| 2018 | 13 |
| Total | \$4,632 |

Estimated remaining amortization expense of \$1.2 million, \$1.2 million, \$0.4 million, \$0.1 million, and \$13,000 will be recorded in cost of revenue for 2014, 2015, 2016, 2017, and 2018, respectively. The remaining estimated amortization expense will be recorded in amortization of certain acquired intangible assets within operating expenses.

Other Income (Expense)

| | Year Ended December 31, | | |
|---|-------------------------|----------|-------------|
| | 2013 | 2012 | 2011 |
| | (in thousands) | | |
| Interest income | \$357 | \$— | \$20 |
| Interest expense | (6,563 |) (442 |) (902 |
| Change in fair value of preferred stock warrant liabilities | — | — | (42,559 |
| Withdrawn secondary offering expense | — | — | (555 |
| Other, net | (356 |) 40 | (416 |
| Other income (expense), net | \$(6,562 |) \$(402 |) \$(44,412 |

Interest income for the year ended December 31, 2013 increased by \$0.4 million as compared to the same period in 2012 due to the interest income earned on purchase of investment securities net of purchased premium amortization in the year ended December 31, 2013.

Interest expense for the year ended December 31, 2013 increased \$6.1 million as compared to the same period in 2012 due to accretion of debt discount and the amortization of debt issuance costs of \$4.3 million and interest expense of \$2.0 million for the convertible notes issued in June 2013. Refer to the section titled “Liquidity and Capital Resources” below for additional information on the convertible notes.

During the year ended December 31, 2011, we recorded a non-cash charge of \$42.6 million related to the change in fair value of our preferred stock warrant liabilities from December 31, 2010 to the respective exercise dates of the warrants in March 2011. We valued our preferred stock warrants at the end of each fiscal period using the Black-Scholes option pricing model. During March 2011, all of our warrants to purchase preferred stock were exercised, and all outstanding shares of preferred stock, including all shares of preferred stock issued upon the exercise of the preferred stock warrants, were converted into common stock on a one-for-one basis. As a result, subsequent to the three months ended March 31, 2011, we no longer record any changes in the fair value of such liabilities in our statement of operations.

During the year ended December 31, 2011, we incurred legal, accounting and printing related costs of approximately \$0.6 million associated with our intended secondary offering. As a result of our withdrawal from the offering, we expensed such costs.

Other, net is comprised of foreign exchange gains and losses related to transactions denominated in foreign currencies and unrealized gains and losses related to our intercompany loans. Foreign exchange gains and losses for the years ended December 31, 2013, 2012 and 2011, respectively, were primarily driven by fluctuations in the British Pound and Euro in relation to the U.S. Dollar.

Income Tax Benefit (Provision)

| | Year Ended December 31, | | |
|--------------------------------|-------------------------|-------|--------|
| | 2013 | 2012 | 2011 |
| | (in thousands) | | |
| Income tax benefit (provision) | \$128 | \$789 | \$(181 |

We have recorded a full valuation allowance against our United States and United Kingdom net deferred tax assets and therefore have not recorded a benefit (provision) for income taxes for any of the periods presented, other than provisions for certain foreign income taxes. During the years ended December 31, 2013 and 2012, we recorded an income tax benefit primarily due to the amortization of deferred tax liabilities assumed as part of the Sonar acquisition.

Liquidity and Capital Resources

In June 2013, we issued \$253 million of 1.5% convertible notes due July 1, 2018 (the “Notes”) and concurrently entered into convertible notes hedges and separate warrant transactions. The Notes mature on July 1, 2018, unless earlier converted. Upon conversion of any Notes, we will deliver cash up to the principal amount, and we have the right to settle any amounts in excess of the principal in cash or shares. We received proceeds of \$246.0 million from the

issuance of the Notes, net of associated fees, received \$23.2 million from the issuance of the warrants and paid \$49.5 million for the note hedges. The Notes are classified as a non-current liability on our consolidated balance sheet as of December 31, 2013.

At December 31, 2013, our principal sources of liquidity were \$109.6 million of cash and cash equivalents, short-term investments of \$199.9 million, and \$67.2 million of accounts receivable.

We intend to use our cash for general corporate purposes, including potential future acquisitions or other transactions. Depending on certain growth opportunities, we may choose to accelerate investments in sales and marketing, research and development, technology and services, which may require the use of proceeds for such additional expansion and expenditures. Based on our current level of operations and anticipated growth, we believe our future cash flows from operating activities and existing cash and cash equivalents will provide adequate funds for our ongoing operations and general corporate purposes for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue, billings growth and collections, the level of our sales and marketing efforts, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of introductions of new services and enhancements to existing services, the timing of general and administrative expenses as we grow our administrative infrastructure, and the continuing market acceptance of our solution. To the extent that existing cash and cash from operations are not sufficient to fund our future activities, we may need to raise additional funds or utilize our cash resources. Although we are not currently a party to any agreement or letter of intent with respect to potential investments in, or acquisitions of, complementary businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional financing or utilize our cash resources.

The following table sets forth a summary of our cash flows for the periods indicated (in thousands):

| | Year Ended December 31, | | |
|---|----------------------------|-----------|----------|
| | 2013 | 2012 | 2011 |
| Net cash provided by operating activities | \$17,431 | \$10,294 | \$1,832 |
| Net cash used in investing activities | (213,445 |) (19,581 |) (3,885 |
| Net cash provided by financing activities | 228,928 | 312 | 80,639 |
| Net Cash Provided by Operating Activities | | | |

Our cash flows from operating activities are significantly influenced by our growth, ability to maintain our contractual billing and collection terms, and our investments in headcount and infrastructure to support anticipated growth. Given the seasonality and continued growth of our business, our cash flows from operations will vary from period to period. Cash provided by operating activities of \$17.4 million during 2013 was a result of the continued growth of our business and our continued investments for further growth. In the year ended December 31, 2013, \$32.2 million, or 80%, of our net loss of \$40.4 million consisted of non-cash items, including \$20.8 million of stock-based compensation, \$9.7 million of depreciation and amortization, and \$4.3 million of accretion of debt discount and amortization of debt issuance costs. These non-cash expenses were partially offset by a purchased premium of \$2.0 million related to investment securities, net of amortization.

Cash provided by operating activities includes a \$45.2 million increase in deferred revenue due to increased billings during the year ended December 31, 2013, a \$6.8 million increase in accrued liabilities primarily due to the timing of payments, an increase in accounts payable of \$5.1 million attributable to increased expenses associated with our growth, and an increase in other liabilities of \$0.7 million. Cash provided by operating activities is partially offset by a \$19.0 million increase in accounts receivable attributable to higher billings in the fiscal year 2013 due to an increased number of clients, a \$7.1 million increase in deferred commissions due to increased sales, and a \$6.1 million increase in prepaid and other assets due to an increase in business activity associated with the growth of our business and the timing of payments to vendors.

Cash provided by operating activities during 2012 of \$10.3 million was a result of the continued growth of our business and our ability to bill and collect from our customers, partially offset by our continued investments for further growth. In the year ended December 31, 2012, \$18.2 million, or 58%, of our net loss of \$31.4 million consisted of non-cash items, including \$12.2 million of stock-based compensation and \$7.0 million of depreciation and amortization. These non-cash expenses were partially offset by a non-cash deferred tax benefit of \$1.0 million. Cash provided by operating activities includes a \$35.3 million increase in deferred revenue due to increased billings during

the year ended December 31, 2012, a \$6.3 million increase in accrued liabilities primarily due to the timing of payments, and an increase in other liabilities of \$3.7 million. Cash provided by operating activities is partially offset by a \$12.3 million increase in

accounts receivable attributable to higher billings in the fiscal year 2012 due to an increased number of clients, a \$5.7 million increase in deferred commissions due to increased sales and a change in our commission plan payment schedule during the period, and a \$4.2 million increase in prepaid and other assets due to an increase in business activity associated with the growth of our business and the timing of payments to vendors.

Cash provided by operating activities during 2011 of \$1.8 million was a result of a significant increase in sales due to the growth in our business. In 2011, \$54.5 million, or 85%, of our net loss of \$63.9 million consisted of non-cash items, including a \$42.6 million increase in preferred stock warrant liabilities, \$4.5 million of stock-based compensation, \$3.7 million of depreciation and amortization, a \$2.5 million reduction of revenue for the issuance of a common stock warrant in connection with our distributor agreement with ADP, \$0.6 million of non-cash interest expense, and approximately \$0.5 million in foreign exchange losses. In addition to these non-cash items, we incurred \$0.6 million in expenses associated with our secondary offering that we withdrew from in August 2011, which expenses we presented as part of cash flows from financing activities. The other elements of our cash flows from operating activities during 2011 generally reflected significantly increased sales compared to the prior-year and our continued significant investments in headcount and other expenses to grow our business. We used working capital in a \$13.3 million increase in accounts receivable due to significantly increased sales compared to the prior-year. Other uses of working capital included a \$1.8 million increase in prepaid expenses and other assets, including increased third-party content fees commensurate with the increased sales, and a \$1.3 million increase in deferred commissions due to the increased sales. These uses of cash were partially offset by a \$22.2 million increase in deferred revenue also due to the increased sales, a \$3.3 million increase in accrued expenses reflecting the overall growth of our business, including additional vacation and bonus accruals consistent with our growth in headcount, a \$0.9 million increase in accounts payable due to a higher level of expenses consistent with the overall growth of our business, and a \$0.7 million increase in other liabilities.

Net Cash Used in Investing Activities

Our primary investing activities have consisted of capital expenditures to develop our capitalized software as well as to purchase computer equipment, leasehold improvements, and furniture and fixtures in support of expanding our infrastructure and workforce. In addition, in July 2013 we began to invest the proceeds of our convertible notes in investment securities. As our business grows, we expect our capital expenditures and our investment activity to continue to increase.

We used \$213.4 million of cash in investing activities in the year ended December 31, 2013, primarily due to \$204.0 million in purchases of investment securities, \$8.8 million in purchases of additional equipment, and \$6.9 million of investments in our capitalized software during the period. Cash used in investing activities was partially offset by a \$6.2 million increase related to cash received from the maturities and sales of investment securities. Our investments in fixed assets consisted of \$10.1 million in corporate office renovations, purchases of additional furniture and equipment for our expanding infrastructure and work force, which were primarily financed through \$0.1 million in capital leases and other financing arrangements, \$8.8 million in cash, and \$1.2 million through our accounts payable and accrued expenses.

We used \$19.6 million of cash in investing activities in the year ended December 31, 2012, due to cash used in our acquisition of Sonar Limited of \$12.4 million, \$5.0 million of investments in our capitalized software, and \$2.1 million in cash purchases of net investments in fixed assets. Our investments in fixed assets consisted of \$7.2 million in corporate office renovations, purchases of additional furniture and equipment for our expanding infrastructure and work force, which were primarily financed through \$2.9 million in capital leases and other financing arrangements, \$2.1 million in cash, \$1.5 million via a lease arrangement with Water Garden Realty Holding LLC, and \$0.7 million through our accounts payable.

We used \$3.9 million of cash in investing activities for the year ending December 31, 2011, primarily due to \$3.0 million of investments in our capitalized software and approximately \$0.8 million of net investments in other fixed assets. The investments in other fixed assets consisted of \$1.5 million in purchases of additional equipment during the period for our expanding infrastructure and workforce that were primarily financed through \$1.1 million in capital leases and other financing arrangements and through \$0.7 million under our SVB Credit Facility. In addition, we financed through capital leases approximately \$0.4 million of previous investments in fixed assets during 2011 which

were previously reflected in accounts payable at December 31, 2010.

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Net Cash Provided by Financing Activities

Cash provided by financing activities of \$228.9 million in the year ended December 31, 2013 was primarily due to proceeds from the Notes of \$245.7 million and proceeds from the issuance of warrants of \$23.2 million, and proceeds from stock option exercises of \$13.4 million. These proceeds were partially offset by our payment for the convertible note hedges of \$49.5 million and repayment of our credit facility of \$4.0 million.

The cash provided by financing activities of \$0.3 million in the year ended December 31, 2012 was primarily due to proceeds of \$2.7 million from stock option exercises and common stock warrant exercises, borrowings of \$1.0 million on our line of credit with Silicon Valley Bank, partially offset by payments of \$1.9 million on our capital lease and financing obligations, and debt repayment of \$1.5 million.

The cash provided by financing activities of \$80.6 million in the year ended December 31, 2011 was primarily due to \$90.5 million of proceeds from our initial public offering, net of underwriting discounts and commissions but before offering expenses. In addition, cash provided by financing activities was also due to the receipt of \$4.7 million in proceeds from the exercise of warrants to purchase preferred stock and common stock and stock options and borrowings of \$0.7 million under our SVB Credit Facility to finance the purchase of additional equipment and software. These proceeds were partially offset by payments of \$9.2 million to repay outstanding debt, payments of costs of \$3.4 million related to our initial public offering, payments of \$2.0 million on our capital lease obligations and other financing arrangements, and payments of costs of \$0.6 million related to our withdrawn secondary offering.

Contractual Obligations

Our principal commitments consist of obligations for outstanding debt, leases for our office space, computer equipment, furniture and fixtures, contractual commitments for professional service projects and third party consulting firms. The following table summarizes our contractual obligations at December 31, 2013 (in thousands):

| | Total | Year Ending December 31, | | | | | |
|---|-----------|--------------------------|----------|----------|----------|-----------|------------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
| Long-term debt obligations including interest | \$271,052 | \$2,466 | \$4,191 | \$3,805 | \$3,795 | \$256,795 | \$— |
| Capital lease obligations | 1,164 | 943 | 217 | 4 | — | — | — |
| Operating lease obligations | 26,778 | 4,938 | 5,042 | 5,365 | 5,511 | 5,512 | 410 |
| Other contractual obligations ⁽¹⁾ | 47,199 | 16,034 | 16,242 | 3,810 | 3,810 | 3,810 | 3,493 |
| | \$346,193 | \$24,381 | \$25,692 | \$12,984 | \$13,116 | \$266,117 | \$3,903 |

(1) Other contractual obligations include agreements with various third party service providers whereby we have committed to assign certain dollar amounts or hours of professional service projects related to implementation and other services for our clients.

At December 31, 2013, liabilities for unrecognized tax benefits of \$0.3 million which are attributable to foreign income taxes and interest and penalties, are not included in the table above because, due to their nature, there is a high degree of uncertainty regarding the time of future cash outflows and other events that extinguish these liabilities.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not have any relationships with other entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are therefore not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

During 2013, we amended a standby letter of credit in association with a building lease and signed a standby letter of credit for a contractual arrangement in Israel. In addition, we maintain standby letters of credit in association with other contractual arrangements. The total amount outstanding is \$1.5 million at December 31, 2013.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large clients and limit credit exposure by collecting in advance and setting credit limits as we deem appropriate. In addition, our investment strategy has been to invest in financial instruments that are highly liquid and readily convertible into cash and that mature within three months from the date of purchase. To date, we have not used derivative instruments to mitigate the impact of our market risk exposures. We have also not used, nor do we intend to use, derivatives for trading or speculative purposes.

Interest Rate Risk

At December 31, 2013, we had cash and cash equivalents of \$109.6 million and short-term investments of \$199.9 million, which primarily consisted of corporate bonds, U.S. treasury and agency securities, and money market funds backed by United States Treasury Bills. The carrying amount of our cash equivalents reasonably approximates fair value due to the short maturities of these instruments.

The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to fluctuations in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, however, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. We therefore do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We do not believe our cash equivalents have significant risk of default or illiquidity. While we believe our cash equivalents do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on these deposits.

Foreign Currency Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. Dollar. Our historical revenue has primarily been denominated in U.S. Dollars, and a significant portion of our current revenue continues to be denominated in U.S. Dollars. However, we expect an increasing portion of our future revenue to be denominated in currencies other than the U.S. Dollar, primarily the Euro and British Pound. To a lesser extent, we also have revenue denominated in Australian Dollars, Canadian Dollars, Indian Rupees, Japanese Yen, New Zealand Dollars, Singapore Dollars, South African Rand, and other foreign currencies to a lesser extent. Our operating expenses are generally denominated in the currencies of the countries in which our operations are located, primarily the United States and, to a much lesser extent, the United Kingdom, other European Union countries, Australia, Canada, China, Denmark, Hong Kong, India, Israel, Italy, Japan, New Zealand, and Sweden. Increases and decreases in our foreign-denominated revenue from movements in foreign exchange rates are often partially offset by the corresponding decreases or increases in our foreign-denominated operating expenses. Our other income (expense) is also impacted by the remeasurement of U.S. Dollar denominated intercompany loans by our overseas subsidiaries.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. Dollar can increase the costs of our international expansion. To date, we have not entered into any foreign currency hedging contracts although we may do so in the future. The effect of an immediate 10% adverse change in foreign exchange rates on foreign-denominated accounts at December 31, 2013, including our intercompany loans with our UK subsidiary, would result in a foreign currency loss of approximately \$3.8 million.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, 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.

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Counterparty Risk

Our financial statements are subject to counterparty credit risk, which we consider as part of the overall fair value measurement. We attempt to mitigate this risk through credit monitoring procedures.

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Item 8. Financial Statements and Supplementary Data
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Cornerstone OnDemand, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Cornerstone OnDemand, Inc. and its subsidiaries (the "Company") at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits (which were integrated audits in 2013 and 2012). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

February 26, 2014

CORNERSTONE ONDEMAND, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 109,583 | \$ 76,442 |
| Short-term investments | 199,925 | — |
| Accounts receivable, net | 67,191 | 47,528 |
| Deferred commissions | 16,634 | 9,354 |
| Prepaid expenses and other current assets | 14,118 | 8,249 |
| Total current assets | 407,451 | 141,573 |
| Capitalized software development costs, net | 10,665 | 7,007 |
| Property and equipment, net | 14,436 | 7,947 |
| Intangible assets, net | 4,632 | 6,887 |
| Goodwill | 8,193 | 8,193 |
| Other assets, net | 5,978 | 227 |
| Total Assets | \$ 451,355 | \$ 171,834 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Accounts payable | \$ 10,037 | \$ 4,849 |
| Accrued expenses | 22,288 | 14,986 |
| Deferred revenue, current portion | 135,322 | 87,759 |
| Capital lease obligations, current portion | 905 | 1,643 |
| Debt, current portion | 519 | 916 |
| Other liabilities | 4,203 | 3,885 |
| Total current liabilities | 173,274 | 114,038 |
| Convertible notes, net | 217,965 | — |
| Other liabilities, non-current | 3,111 | 3,592 |
| Deferred revenue, net of current portion | 3,500 | 4,493 |
| Capital lease obligations, net of current portion | 218 | 1,227 |
| Debt, net of current portion | 392 | 1,836 |
| Total liabilities | 398,460 | 125,186 |
| Commitments and contingencies (Note 16) | | |
| Stockholders' Equity: | | |
| Common stock, \$0.0001 par value; 1,000,000 shares authorized, 52,470 and 50,690 shares issued and outstanding at December 31, 2013 and 2012 | 5 | 5 |
| Additional paid-in capital | 289,307 | 242,767 |
| Accumulated deficit | (236,467 |) (196,041 |
| Accumulated other comprehensive income (loss) | 50 | (83 |
| Total stockholders' equity | 52,895 | 46,648 |
| Total Liabilities and Stockholders' Equity | \$ 451,355 | \$ 171,834 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CORNERSTONE ONDEMAND, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

| | Years Ended December 31, | | |
|---|-----------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| Revenue (net of a \$2,500 reduction of revenue in 2011 relating to common stock warrants) | \$185,129 | \$117,914 | \$73,022 |
| Cost of revenue | 53,548 | 34,591 | 21,285 |
| Gross profit | 131,581 | 83,323 | 51,737 |
| Operating expenses: | | | |
| Sales and marketing | 109,737 | 73,563 | 45,773 |
| Research and development | 21,260 | 14,886 | 10,149 |
| General and administrative | 33,572 | 25,912 | 15,122 |
| Amortization of certain acquired intangible assets | 1,004 | 739 | — |
| Total operating expenses | 165,573 | 115,100 | 71,044 |
| Loss from operations | (33,992 |) (31,777 |) (19,307 |
| Other income (expense): | | | |
| Interest income | 357 | — | 20 |
| Interest expense | (6,563 |) (442 |) (902 |
| Change in fair value of preferred stock warrant liabilities | — | — | (42,559 |
| Withdrawn secondary offering expense | — | — | (555 |
| Other, net | (356 |) 40 | (416 |
| Other income (expense), net | (6,562 |) (402 |) (44,412 |
| Loss before income tax benefit (provision) | (40,554 |) (32,179 |) (63,719 |
| Income tax benefit (provision) | 128 | 789 | (181 |
| Net loss | \$(40,426 |) \$(31,390 |) \$(63,900 |
| Accretion of redeemable preferred stock | — | — | (5,208 |
| Net loss attributable to common stockholders | \$(40,426 |) \$(31,390 |) \$(69,108 |
| Net loss per share attributable to common stockholders, basic and diluted | \$(0.79 |) \$(0.63 |) \$(1.74 |
| Weighted average common shares outstanding, basic and diluted | 51,427 | 49,929 | 39,824 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CORNERSTONE ONDEMAND, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
 (In thousands)

| | Years Ended December 31, | | |
|--|-----------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Net loss | \$ (40,426 |) \$ (31,390 |) \$ (63,900 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustment | 3 | (273 |) 217 |
| Net change in unrealized gains (losses) on investments | 130 | — | — |
| Other comprehensive income (loss), net of tax | 133 | (273 |) 217 |
| Total comprehensive loss | \$ (40,293 |) \$ (31,663 |) \$ (63,683 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CORNERSTONE ONDEMAND, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

| | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|--|--------------|-----------|----------------|---------|----------------------------|---------------------|---|-------------|
| | Shares | Par Value | Shares | At Cost | (Deficit) | | | |
| Balance as of December 31, 2010 | 10,586 | \$1 | — | \$— | \$597 | \$ (97,802) | \$ (27) | \$(97,231) |
| Accretion of preferred stock | — | — | — | — | (2,259) | (2,949) | — | (5,208) |
| Conversion of preferred stock to common stock | 28,809 | 3 | — | — | 132,772 | — | — | 132,775 |
| Issuance of common stock for the exercise of warrants to purchase common stock | 898 | — | — | — | 474 | — | — | 474 |
| Issuance of common stock upon initial public offering, net of issuance costs | 7,500 | 1 | — | — | 86,852 | — | — | 86,853 |
| Issuance of common stock to a non-profit organization | 20 | — | — | — | 193 | — | — | 193 |
| Issuance of common stock upon the exercise of options | 1,461 | — | — | — | 1,017 | — | — | 1,017 |
| Issuance of common stock warrants | — | — | — | — | 2,500 | — | — | 2,500 |
| Vesting of early exercised options | — | — | — | — | 82 | — | — | 82 |
| Tax withholding on net exercise of stock-based awards | — | — | — | — | (48) | — | — | (48) |
| Stock-based compensation | — | — | — | — | 4,736 | — | — | 4,736 |
| Net loss | — | — | — | — | — | (63,900) | — | (63,900) |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 217 | 217 |
| | 49,274 | \$5 | — | \$— | \$226,916 | \$ (164,651) | \$ 190 | \$62,460 |

| | | | | | | | | |
|---|-------|---|---|---|-------|---|---|-------|
| Balance as of December 31, 2011 | | | | | | | | |
| Issuance of common stock for the exercise of warrants to purchase common stock | 130 | — | — | — | 208 | — | — | 208 |
| Issuance of common stock upon the exercise of options | 1,127 | — | — | — | 2,490 | — | — | 2,490 |
| Vesting of early exercised options | — | — | — | — | 55 | — | — | 55 |
| Vesting of restricted stock units | 112 | — | — | — | — | — | — | — |
| Shares issued for acquisition of Sonar Limited | 47 | — | — | — | 335 | — | — | 335 |

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| | | | | | | | | |
|---|--------|-----|---|-----|-----------|--------------|---------|-----------|
| Stock-based compensation | — | — | — | — | 12,763 | — | — | 12,763 |
| Net loss | — | — | — | — | — | (31,390) | — | (31,390) |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (273) | (273) |
| Balance as of December 31, 2012 | 50,690 | \$5 | — | \$— | \$242,767 | \$(196,041) | \$(83) | \$46,648 |
| Issuance of common stock upon the exercise of options | 1,566 | — | — | — | 13,432 | — | — | 13,432 |
| Vesting of early exercised options | — | — | — | — | 28 | — | — | 28 |
| Vesting of restricted stock units | 214 | — | — | — | — | — | — | — |
| Tax benefits from employee stock plans | — | — | — | — | 29 | — | — | 29 |
| Stock-based compensation | — | — | — | — | 21,769 | — | — | 21,769 |
| Net change in unrealized gains on investments | — | — | — | — | — | — | 130 | 130 |
| Equity component of convertible notes | — | — | — | — | 11,282 | — | — | 11,282 |
| Net loss | — | — | — | — | — | (40,426) | — | (40,426) |
| Foreign currency translation adjustment | — | — | — | — | — | — | 3 | 3 |
| Balance as of December 31, 2013 | 52,470 | \$5 | — | \$— | \$289,307 | \$(236,467) | \$50 | \$52,895 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CORNERSTONE ONDEMAND, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Years Ended December 31, | | |
|--|--------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Net loss | \$(40,426 |) \$(31,390 |) \$(63,900 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 9,700 | 7,037 | 3,714 |
| Accretion of debt discount and amortization of debt issuance costs | 4,273 | 143 | 579 |
| Purchased investment premium, net of amortization | (2,031 |) — | — |
| Change in fair value of preferred stock warrant liabilities | — | — | 42,559 |
| Unrealized foreign exchange loss (gain) | 242 | (182 |) 460 |
| Charges related to the issuance of common stock warrants to a distributor | — | — | 2,500 |
| Stock-based compensation expense | 20,840 | 12,207 | 4,502 |
| Withdrawn secondary offering expense | — | — | 555 |
| Non-cash charitable contribution of common stock | — | — | 193 |
| Deferred income taxes | (865 |) (965 |) — |
| Changes in operating assets and liabilities, net of effects from acquisition: | | | |
| Accounts receivable | (19,046 |) (12,254 |) (13,308 |
| Deferred commissions | (7,085 |) (5,691 |) (1,274 |
| Prepaid expenses and other assets | (6,057 |) (4,188 |) (1,804 |
| Accounts payable | 5,082 | 190 | 915 |
| Accrued expenses | 6,828 | 6,325 | 3,314 |
| Deferred revenue | 45,230 | 35,327 | 22,161 |
| Other liabilities | 746 | 3,735 | 666 |
| Net cash provided by operating activities | 17,431 | 10,294 | 1,832 |
| Cash flows from investing activities: | | | |
| Purchases of investments | (203,959 |) — | (34,079 |
| Maturities of investments | 6,182 | — | 34,000 |
| Purchases of property and equipment | (8,762 |) (2,123 |) (784 |
| Capitalized software costs | (6,906 |) (5,030 |) (3,022 |
| Cash paid for acquisition, net of cash acquired | — | (12,428 |) — |
| Net cash used in investing activities | (213,445 |) (19,581 |) (3,885 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of convertible notes, net | 245,664 | — | — |
| Payments for convertible note hedges | (49,537 |) — | — |
| Proceeds from the issuance of warrants | 23,225 | — | — |
| Proceeds from initial public offering, net of underwriting discounts and commissions | — | — | 90,539 |
| Payments of initial public offering costs | — | — | (3,436 |
| Proceeds from issuance of preferred stock upon warrant exercises | — | — | 3,163 |
| Payments of withdrawn secondary offering costs | — | — | (555 |
| Proceeds from the issuance of debt | 1,914 | 1,043 | 669 |

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| | | | | |
|--|--------|----------|----------|---|
| Repayment of debt | (4,038 |) (1,510 |) (9,207 |) |
| Principal payments under capital lease obligations | (1,747 |) (1,919 |) (1,977 |) |
| Proceeds from stock option and warrant exercises | 13,447 | 2,698 | 1,491 | |

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| | | | | |
|---|-----------|----------|-----------|---|
| Payment of withholding tax on net exercise of stock-based awards | — | — | (48) |) |
| Net cash provided by financing activities | 228,928 | 312 | 80,639 | |
| Effect of exchange rate changes on cash and cash equivalents | 227 | 8 | (244) |) |
| Net increase (decrease) in cash and cash equivalents | 33,141 | (8,967) | 78,342 |) |
| Cash and cash equivalents at beginning of period | 76,442 | 85,409 | 7,067 | |
| Cash and cash equivalents at end of period | \$109,583 | \$76,442 | \$85,409 | |
| Supplemental cash flow information: | | | | |
| Cash paid for interest | \$2,294 | \$341 | \$543 | |
| Cash paid for income taxes | \$485 | \$103 | \$104 | |
| Non-cash investing and financing activities: | | | | |
| Conversion of convertible preferred stock to common stock | \$— | \$— | \$132,775 | |
| Assets acquired under capital leases and other financing arrangements | \$88 | \$3,722 | \$1,131 | |
| Common stock issued for business acquisition | \$— | \$335 | \$— | |
| Capitalized assets financed by accounts payable and accrued expenses | \$1,175 | \$693 | \$25 | |
| Capitalized stock-based compensation | \$941 | \$556 | \$234 | |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CORNERSTONE ONDEMAND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Company Overview

Cornerstone OnDemand, Inc. (“Cornerstone” or the “Company”) was incorporated on May 24, 1999 in the state of Delaware and began its principal operations in November 1999.

The Company is a leading global provider of comprehensive talent management solutions delivered as Software-as-a-Service (“SaaS”). The Company’s core solution consists of four integrated clouds for recruiting, learning management, performance management and extended enterprise. Customers may subscribe to one or more of the clouds.

The Company’s solutions are designed to enable organizations to meet the challenges they face in empowering and maximizing the productivity of their human capital. These challenges include hiring and developing employees throughout their careers, engaging all employees effectively, improving business execution, cultivating future leaders, and integrating with an organization’s extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content. Management has determined that it operates in one segment as it only reports financial information on an aggregate and consolidated basis to its chief executive officer, who is the Company’s chief operating decision maker.

The Company also offers Cornerstone Small Business, a talent management solution for small businesses and Cornerstone for Salesforce, a cloud-based talent management solution developed on the Salesforce.com platform which allows organizations to provide access to sales enablement and just-in-time training from within Salesforce.

Office Locations

The Company is headquartered in Santa Monica, California and has offices in Auckland, Hong Kong, London, Madrid, Mumbai, Munich, Paris, Rome, Sydney, Tel Aviv, and Tokyo.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Cornerstone OnDemand, Inc., and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On an on-going basis, management evaluates its estimates, including among others those related to: (i) the realization of tax assets and estimates of tax liabilities, (ii) the recognition and disclosure of contingent liabilities, (iii) the collectability of accounts receivable, (iv) the evaluation of revenue recognition criteria, including the determination of standalone value and estimates of the selling price of multiple-deliverables in the Company’s revenue arrangements, (v) fair values of investments in marketable securities, (vi) the assigned value of acquired assets and assumed liabilities in business combinations, (vii) the useful lives of property and equipment, capitalized software and intangible assets, (viii) impairment of long-lived assets, including goodwill, (ix) the amount and period of amortization of the commission payments to record to expense in proportion to the revenue that is recognized, and (x) assumptions used in the Black-Scholes option pricing model to determine the fair value of stock options and warrants. These estimates are based on historical data and experience, as well as various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The Company engages third-party valuation specialists to assist with the allocation of the purchase price in business

combinations and, prior to the Company's IPO in March 2011, the Company engaged third-party valuation specialists to assist with estimates related to the valuation of its preferred and common stock. Such estimates required the selection of appropriate valuation methodologies and models, and significant judgment in evaluating ranges of assumptions and financial inputs.

Withdrawn Secondary Offering

On July 20, 2011, in connection with a proposed secondary offering of shares of common stock by the Company and certain existing stockholders (“the secondary offering”), the Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission (“SEC”). On August 8, 2011, pursuant to Rule 477 promulgated under the Securities Act of 1933, as amended, the Company requested that the SEC consent to the withdrawal of the Registration Statement, including all amendments and exhibits. During the year ended December 31, 2011, the Company incurred expenses of approximately \$0.6 million in connection with the proposed secondary offering which were recorded in other, net, within other income (expense) in the Company’s statements of operations.

Reclassifications

Certain amounts in the consolidated cash flows at December 31, 2012 have been reclassified to conform to the current year presentation.

Business Combinations

The results of businesses acquired in a business combination are included in the Company’s consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill.

The Company performs valuations of assets acquired and liabilities assumed for an acquisition and allocates the purchase price to its respective net tangible and intangible assets. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates including the selection of valuation methodologies, estimates of future revenue and cash flows, discount rates and selection of comparable companies. The Company engages the assistance of valuation specialists in concluding on fair value measurements in connection with fair values of assets and liabilities assumed in a business combination.

Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in the consolidated statement of operations. There were no transaction costs for the year ended December 31, 2013. Transaction costs were \$0.7 million for the year ended December 31, 2012.

Net Loss per Share Attributable to Common Stockholders

Basic net loss per share of common stock is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for a period.

Prior to the Company’s IPO in March 2011, as the Company had convertible preferred stock outstanding, and, as the holders of the Company’s convertible preferred stock were entitled to participate in dividends and earnings of the Company, the Company used the two-class method in calculating earnings per share for periods in which the Company generated net income. As the holders of the Company’s convertible preferred stock were not contractually obligated to share in the losses of the Company, no such allocation was made for any periods presented given the Company’s net losses.

The Company may grant restricted stock under the 2010 Equity Incentive Plan (“2010 Plan”) (See Note 12). As the holders of the Company’s restricted stock under the 2010 Plan are both entitled to participate in dividends and earnings of the Company, the Company uses the two-class method in calculating earnings per share for periods in which the Company generates income. As restricted stock holders are not contractually obligated to share in the losses, no such allocation was made for any periods presented given the company’s net losses.

The two-class method requires net income to be allocated between the classes of stockholders, whether vested or unvested, based on their respective rights to receive dividends, whether or not declared.

Diluted loss per share attributable to common stockholders is based on the weighted-average number shares of common stock outstanding adjusted for the dilutive effect of share-based awards and the potential dilutive effect of warrants, convertible notes and convertible preferred stock. Diluted loss per share attributable to common stockholders is the same as basic loss per share attributable to common stockholders for all periods presented because the Company has reported net losses and the effects of including the potentially dilutive items were anti-dilutive.

Revenue Recognition

The Company derives its revenue from the following sources:

Subscriptions to the Company's solutions—Clients pay subscription fees for access to the Company's solutions for a specified period of time, typically three years for the Company's core solution or monthly, annually, or three-year periods for the Company's CSB and Cornerstone for Salesforce solutions. Fees are based on a number of factors, including the number of users having access to a solution. The Company generally recognizes revenue from subscriptions ratably over the term of the agreement.

Consulting services—The Company offers its clients assistance in implementing its solutions and optimizing their use. Consulting services include application configuration, system integration, business process re-engineering, change management, and training services. Services are billed either on a time-and-material or a fixed-fee basis. These services are generally purchased as part of a subscription arrangement and are typically performed within the first several months of the arrangement. Clients may also purchase consulting services at any other time. Consulting services are performed by the Company directly or by third-party professional service providers the Company engages. Clients may also choose to perform these services themselves or engage their own third-party service providers. The Company generally recognizes revenue from fixed fee consulting services using the proportional performance method over the period the services are performed and as time is incurred for time-and-material arrangements.

E-learning content—The Company resells third-party on-line training content, referred to as e-learning content, to its clients. In addition, the Company also hosts other e-learning content provided by its clients. The Company generally recognizes revenue from the resale of e-learning content as it is delivered and recognizes revenue from hosting as the hosting services are provided.

The Company recognizes revenue when: (i) persuasive evidence of an arrangement for the sale of the Company's solutions or consulting services exists, (ii) the solutions have been made available or delivered, or services have been performed, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. The timing and amount the Company recognizes as revenue is determined based on the facts and circumstances of each client arrangement. Evidence of an arrangement consists of a signed client agreement. The Company considers that delivery of a solution has commenced once it provides the client with log-in information to access and use the solution. If non-standard acceptance periods or non-standard performance criteria exist, revenue recognition commences upon the satisfaction of the non-standard acceptance or performance criteria, as applicable. Standard acceptance or performance clauses relate to the Company's solutions meeting certain perfunctory operating thresholds. Fees are fixed based on stated rates specified in the client agreement. If collectability is not considered reasonably assured, revenue is deferred until the fees are collected. The majority of client arrangements include multiple deliverables, such as subscriptions to the Company's software solutions and consulting services. The Company therefore recognizes revenue in accordance with the guidance for arrangements with multiple deliverables under Accounting Standards Update ("ASU") 2009-13 "Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements—a Consensus of the Emerging Issues Task Force," or ASU 2009-13. As clients do not have the right to the underlying software code for the solutions, the Company's revenue arrangements are outside the scope of software revenue recognition guidance. The Company's agreements generally do not contain any cancellation or refund provisions other than in the event of the Company's default.

For multiple-deliverable revenue arrangements, the Company first assesses whether each deliverable has value to the client on a standalone basis. The Company has determined that the solutions have standalone value, because, once access is given to a client, the solutions are fully functional and do not require any additional development, modification or customization. Consulting services have standalone value because third-party service providers, distributors or clients themselves can perform these services without the Company's involvement. The consulting services assist clients with the configuration and integration of the Company's solutions. The performance of these services generally does not require highly specialized or skilled individuals and are not essential to the functionality of the solutions.

Based on the standalone value of the deliverables, and since clients do not have a general right of return relative to the included consulting services, the Company allocates revenue among the separate deliverables in an arrangement under

the relative selling price method using the selling price hierarchy established in ASU 2009-13. This hierarchy requires the selling price of each deliverable in a multiple deliverable arrangement to be based on, in descending order: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of fair value (“TPE”) or (iii) management’s best estimate of the selling price (“BESP”).

The Company is generally not able to determine VSOE or TPE for its deliverables, because the deliverables are sold separately and within a sufficiently narrow price range only infrequently, and because management has determined that there are no third-party offerings reasonably comparable to the Company’s solutions. Accordingly, the selling prices of subscriptions to the solutions and consulting services is based on BESP. The determination of BESP requires the Company to make

significant estimates and judgments. The Company considers numerous factors, including the nature of the deliverables themselves; the geography, market conditions and competitive landscape for the sale; internal costs; and pricing and discounting practices. The determination of BESP is made through consultation with and formal approval by senior management. The Company updates its estimates of BESP on an ongoing basis as events and as circumstances may require.

After the fair value of revenue allocable to each deliverable in a multiple deliverable arrangement based on the relative selling price method is determined, revenue is recognized for each deliverable based on the type of deliverable. For subscriptions to the solutions, revenue is recognized on a straight-line basis over the subscription term, which is typically three years. For consulting services, revenue is recognized using the proportional performance method over the period the services are performed.

In a limited number of cases, multiple deliverable arrangements may include consulting services that do not have value on a standalone basis separate from a solution, such as when the client's intended use of a solution requires enhancements to its underlying features and functionality. In these cases, revenue is recognized as one unit of accounting on a straight-line basis from the point at which the consulting services that do not have value on a standalone basis have been completed and accepted by the client, through the remaining term of the agreement. For arrangements in which the Company resells third-party e-learning training content to clients or hosts client or third-party e-learning training content provided by the client, revenue is recognized in accordance with accounting guidance as to when to report gross revenue as a principal or report net revenue as an agent. The Company recognizes third-party content revenue at the gross amount invoiced to clients when (i) the Company is the primary obligor, (ii) the Company has latitude to establish the price charged, and (iii) the Company bears the credit risk in the transaction. For arrangements involving the sale of third-party content, clients are charged for the content based on pay-per-use or a fixed rate for a specified number of users, and revenue is recognized at the gross amount invoiced as the content is delivered. For arrangements where clients purchase third-party content directly from a third-party vendor, or provide it themselves, and the Company integrates the content into a solution, the Company charges a fee per user or fee based on estimated bandwidth. In such cases, the fees are recognized at the net amount charged by the Company for hosting services as the content is delivered.

Revenue generated from sales arrangements through distributors, including revenue generated through the Company's five-year global distributor agreement with ADP described below, is recognized in accordance with the Company's revenue recognition policies as described above at the amount invoiced to the distributor. In these arrangements, the Company recognizes revenue in accordance with accounting guidance as to when to report gross revenue as a principal and when to report net revenue as an agent. The Company recognizes revenue at the net amount invoiced to the distributor, as opposed to the gross amount the distributor invoices their end customer, as the Company has determined that (i) the Company is not the primary obligor in these arrangements, (ii) the Company does not have latitude to establish the price charged to the end-customer and (iii) the Company does not bear the credit risk in the transaction.

In connection with a five-year global distributor agreement entered into in May 2009 with a global distributor, ADP, the Company entered into a warrant agreement to provide additional incentives to ADP. In April 2012, the Company signed an amendment to extend the term of the distributor agreement through 2017. The warrant agreement provided that ADP was eligible to earn fully vested and immediately exercisable ten-year warrants to purchase between zero and 886,096 shares of the Company's common stock at a price of \$0.53 per share if ADP met specified sales targets for each contract year until the earlier of the completion of the five-year term of the distributor agreement or the completion of an initial public offering of the Company's common stock. When ADP achieved the defined sales target and earned a warrant, the Company recorded the fair value of such warrant as a reduction of revenue. For the first contract year ended June 30, 2010, no reductions of revenue were recorded, based on the Company's conclusion that the defined sales targets had not been met by ADP.

During the year ended December 31, 2011, the Company recorded a reduction of revenue of \$2.5 million in connection with the issuance of warrants to ADP. The Company recorded the fair value of the warrants as reduction of revenue as the agreement provides ADP with the right to be the distributor of the Company's services and the Company estimates that ADP will purchase additional services from the Company. See Note 11 for additional

information about warrants under the ADP agreement.

The Company records amounts that have been invoiced to its clients in accounts receivable and in either deferred revenue or revenue depending on whether the revenue recognition criteria described above have been met. Deferred revenue that will be recognized during the succeeding twelve month period from the respective balance sheet date is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

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Cost of Revenue

Cost of revenue consists primarily of costs related to hosting the Company's solutions; personnel and related expenses, including stock-based compensation, and related expenses for network infrastructure, IT support, consulting services and on-going client support staff; payments to external service providers; amortization of capitalized software costs, developed technology and licensing fees; and referral fees. In addition, the Company allocates a portion of overhead, such as rent, IT costs, depreciation and amortization and employee benefits costs, to cost of revenue based on headcount. Costs associated with providing consulting services are recognized as incurred when the services are performed. Out-of-pocket travel costs related to the delivery of professional services are typically reimbursed by the client and are accounted for as both revenue and expense in the period in which the cost is incurred.

Commission Payments

The Company defers commissions paid to its sales force because these amounts are recoverable from the future revenue from the non-cancelable client agreements that gave rise to the commissions. Commissions are deferred on the balance sheet and are amortized to sales and marketing expense over the term of the client agreement in proportion to the revenue that is recognized. Commissions are considered direct and incremental costs to client agreements and were generally paid in the periods the Company received payment from the client under the associated client agreement. Commencing in the fourth quarter of 2012, the Company pays commissions between 45 and 75 days after execution of the client agreement.

During the years ended December 31, 2013, 2012, and 2011, the Company deferred \$22.8 million, \$16.1 million and \$7.7 million, respectively, of commissions on the balance sheet. During the years ended December 31, 2013, 2012, and 2011, the Company amortized \$15.5 million, \$10.3 million and \$6.5 million to sales and marketing expense, respectively. As of December 31, 2013 and 2012, deferred commissions on the Company's consolidated balance sheets totaled \$16.6 million and \$9.4 million, respectively.

Research & Development

Research and development expenses consist primarily of personnel and related expenses for the Company's research and development staff, including salaries, benefits, bonuses and stock-based compensation; the cost of certain third-party service providers; and allocated overhead. Research and development expenses, other than software development costs qualifying for capitalization, are expensed as incurred. The Company's research and development expenses were \$21.3 million in 2013, \$14.9 million in 2012, and \$10.1 million in 2011.

Advertising

Advertising expenses for 2013, 2012, and 2011, were \$2.0 million, \$0.4 million, and \$0.3 million, respectively, and are expensed as incurred.

Stock-Based Compensation

The Company accounts for stock-based compensation awards granted to employees and directors by recording compensation expense based on the awards' estimated fair value. The Company estimates the fair value of its stock-based compensation awards as of the date of grant using the Black-Scholes option-pricing model. The resulting fair value, net of estimated forfeitures, is recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period, which is generally four years. The Company recognizes the fair value of stock-based compensation for awards which contain only service conditions on a straight-line basis over the vesting period of the awards. The Company recognizes the fair value of stock-based compensation for awards which contain performance conditions based upon the probability of that performance condition being met, net of estimated forfeitures, using the graded vesting method. Estimated forfeitures are based upon the Company's historical experience and the Company revises its estimates, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

The Black-Scholes option pricing model requires assumptions, including estimating the value per share of the Company's common stock (for periods prior to the Company's IPO), estimated volatility, risk-free rate, expected term and estimated dividend yield. The assumptions used in calculating the fair value of stock-based compensation awards represents the Company's best estimates, based on management judgment. The Company uses the average volatility of similar publicly traded companies as an estimate for estimated volatility. The Company determines the expected term of awards which contain only service conditions using the simplified approach, in which the expected term of an

award is presumed to be the mid-point between the vesting date and the expiration date of the award, as the Company does not have sufficient historical data relating to stock-option exercises. For awards granted which contain performance conditions the Company estimates the expected term based on estimates of post-vesting employment termination behavior taking into account the life of the award. The risk-free

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interest rate for periods within the expected or contractual life of the option, as applicable, is based on the United States Treasury yield curve in effect during the period the options were granted. The estimated dividend yield is zero, as the Company has not declared, and does not currently intend to declare, dividends in the foreseeable future. The following information represents the weighted average of the assumptions used in the Black-Scholes option-pricing model:

| | For the Years Ended December 31, | | | |
|--------------------------|----------------------------------|--------|--------|---|
| | 2013 | 2012 | 2011 | |
| Risk-free interest rate | 1.5 | % 1.0 | % 1.7 | % |
| Expected term (in years) | 6.0 | 5.8 | 6.0 | |
| Estimated dividend yield | — | % — | % — | % |
| Estimated volatility | 51.5 | % 53.9 | % 56.9 | % |

Due to the full valuation allowance provided on its net deferred tax assets, the Company has not recorded any tax benefit attributable to stock-based compensation expense as of December 31, 2013 and 2012.

Capitalized Software Costs

The Company capitalizes the costs associated with software developed or obtained for internal use, including costs incurred in connection with the development of the solutions, when the preliminary project stage is completed, management has decided to make the project a part of its future offering, and the software will be used to perform the function intended. These capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, personnel and related expenses for employees who are directly associated with and who devote time to internal-use software projects and, when material, interest costs incurred during the development. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for upgrades and enhancements to the solutions are also capitalized. Post-configuration training and maintenance costs are expensed as incurred. Capitalized software costs are amortized to cost of revenue using the straight-line method over an estimated useful life of the software of three years, commencing when the software is ready for its intended use. The Company does not transfer ownership of, or lease its software to its clients.

During the years ended December 31, 2013, 2012 and 2011, the Company capitalized \$7.9 million, \$5.7 million, and \$3.3 million, respectively, of software development costs to the balance sheet. During the years ended December 31, 2013, 2012 and 2011, the Company amortized \$4.3 million, \$2.8 million, and \$1.9 million to cost of revenue, respectively. Based on the Company's capitalized software costs at December 31, 2013, estimated amortization expense of \$5.0 million, \$3.7 million, \$1.8 million and \$0.2 million is expected to be recognized in 2014, 2015, 2016 and 2017, respectively.

Warrants to Purchase Common and Preferred Stock

Warrants to Purchase Common Stock

The Company has issued warrants to purchase common stock in connection with debt arrangements and the purchase of certain domain names and has accounted for these warrants in stockholders' equity at fair value upon issuance, based on the specific terms of such warrant arrangements.

In addition, in connection with a five-year global distributor agreement with ADP entered into in May 2009, the Company entered into a warrant agreement to provide additional incentives to ADP. See Note 11 for additional information about warrants under the ADP agreement.

Warrants to Purchase Preferred Stock

The Company issued warrants to purchase preferred stock in connection with debt arrangements and preferred stock financings and accounted for these warrants as liabilities at fair value at the time of issuance, because the underlying shares of convertible preferred stock were redeemable or contingently redeemable, including in the case of a deemed liquidation, which may have obligated the Company to transfer assets to the warrant holders. The preferred stock warrants were recorded at fair value at the time of issuance. Changes in the fair value of the preferred stock warrants each reporting period were recorded as part of other expense in the Company's statement of operations until the earlier of: (i) the exercise or expiration of the warrants; or (ii) the completion of an initial public offering. Upon the completion of the Company's IPO, all the warrants to purchase preferred stock expired, with the exception of warrants to purchase 140,625 shares of Series D preferred stock and warrants to purchase 380,000 shares of Series C preferred stock. These remaining warrants automatically became warrants to purchase common stock and were classified as equity. Prior to the completion of the Company's IPO in March 2011, all warrants to purchase preferred stock were exercised. The fair value of the preferred stock warrants was estimated using the Black-Scholes option-pricing model.

Comprehensive Loss

Comprehensive loss encompasses all changes in equity other than those arising from transactions with stockholders, and consists of net loss, currency translation adjustments and unrealized gains or losses on investments. For the years ended December 31, 2013, 2012 and 2011, accumulated other comprehensive income (loss) comprised a cumulative translation adjustment. For the year ended December 31, 2013, accumulated other comprehensive income also included net unrealized gains on investments.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities, using tax rates expected to be in effect during the years in which the bases differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In determining the need for valuation allowances, the Company considers projected future taxable income and the availability of tax planning strategies. The Company has recorded a full valuation allowance to reduce its United States and United Kingdom net deferred tax assets to zero, as it has determined that it is not more likely than not that any of the Company's deferred tax assets will be realized.

The Company has assessed its income tax positions and recorded tax benefits for all years subject to examination, based upon its evaluation of the facts, circumstances and information available at each period end. For those tax positions where the Company has determined there is a greater than 50% likelihood that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is determined there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit has been recognized.

Cash and Cash Equivalents

The Company considers cash and cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in the value, including investments with original or remaining maturities from the date of purchase of three months or less. At December 31, 2013 and 2012, cash and cash equivalents consisted of cash balances of \$43.9 million and \$24.9 million, respectively, and money market funds backed by United States Treasury Bills of \$65.7 million and \$51.5 million, respectively.

Investments in Marketable Securities

The Company's available-for-sale investments in marketable securities are recorded at fair value, with any unrealized gains and losses, net of taxes, reported as a component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred. If the Company determines that an other-than-temporary decline has occurred for debt securities that the Company does not then currently intend to sell, the Company recognizes the credit loss component of an other-than-temporary impairment in other income (expense) and the remaining portion in other comprehensive income (loss). The credit loss component is identified as the

amount of the present value of cash flows not expected to be received over the remaining term of the security, based on cash flow projections. In determining whether an other-than-temporary impairment exists, the Company considers: (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition and near-term prospects of the issuer of the securities; and (iii) the Company's intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of marketable securities sold is determined based on the specific identification method and any realized gains or

losses on the sale of investments are reflected as a component of interest income or expense. In addition, the Company classifies marketable securities as current or non-current based upon the maturity dates of the securities. At December 31, 2013, the Company had \$199.9 million of short-term investments in marketable securities. The Company had no investments in marketable securities at December 31, 2012.

Restricted Cash

Included in current and non-current other assets at December 31, 2013 and 2012 were restricted cash of \$0.2 million and \$0.1 million, respectively, in relation to a standby letter of credit in British Pounds for a foreign sales arrangement with a customer in the United Kingdom.

Allowance for Doubtful Accounts

The Company bases its allowance for doubtful accounts on its historical collection experience and a review in each period of the status of the then-outstanding accounts receivable.

A reconciliation of the beginning and ending amount of allowance for doubtful accounts for the years ended December 31, 2013, 2012 and 2011, is as follows (in thousands):

| | 2013 | 2012 | 2011 |
|------------------------------|---------|-------|-------|
| Beginning balance, January 1 | \$464 | \$153 | \$32 |
| Additions and adjustments | 968 | 358 | 203 |
| Write-offs | (411) | (47) | (82) |
| Ending balance, December 31 | \$1,021 | \$464 | \$153 |

Property and Equipment, Net

Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, generally two to seven years (See Note 7).

The Company leases equipment under capital lease arrangements. The assets and liabilities under capital lease are recorded at the lesser of the present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the asset under lease. Assets under capital lease are depreciated using the straight-line method over the lesser of the estimated useful life of the asset or the term of the lease.

Leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated useful lives or lease terms. Repair and maintenance costs are charged to expense as incurred, while renewals and improvements are capitalized.

Impairment of Long Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Such triggering events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, a significant adverse change in legal factors or in the business climate, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows expected to be generated from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated undiscounted future cash flows. There were no impairment charges related to identifiable long lived assets in the years ended December 31, 2013 and 2012.

Intangible Assets

Identifiable intangible assets primarily consist of trade names and intellectual property and acquisition-related intangibles, including developed technology, customer relationships, non-compete agreements, trade names and trademarks. The Company determines the appropriate useful life of its intangible assets by performing an analysis of expected cash flows of the acquired assets. Intangible assets are amortized over their estimated useful lives ranging from two to ten years, generally using the straight line method which approximates the pattern in which the economic benefits are consumed.

Goodwill

Goodwill is not amortized, but instead is required to be tested for impairment annually and under certain circumstances. The Company performs such testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or changes in circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations.

As part of the annual impairment test, the Company may conduct an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it then conducts the first step of a two-step impairment test. The first step of the test for goodwill impairment compares the fair value of the applicable reporting unit with its carrying value. Fair value is determined using a discounted cash flow method and/or prevailing earnings multiples for the reporting unit. The use of discounted cash flows requires the use of various economic, market and business assumptions in developing the reporting unit's revenue, cost and cash flow forecasts, the useful life over which cash flows will occur, and determination of the reporting unit's weighted average cost of capital that reflect the Company's best estimates when performing the annual impairment test. If the fair value of a reporting unit is less than the reporting unit's carrying value, the Company performs the second step of the test for impairment of goodwill in which the Company compares the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. The estimate of implied fair value of goodwill may require valuations of certain internally generated and unrecognized intangible assets and other assets and liabilities. If the carrying value of the goodwill exceeds the calculated implied fair value, the excess amount will be recognized as an impairment loss. Based on the results of the annual impairment test, no impairment of goodwill existed at December 31, 2013.

Senior Convertible Notes

In accounting for senior convertible notes (the "Notes") at issuance, the Company separated the Notes into debt and equity components pursuant to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The fair value of the debt component was estimated using an interest rate for nonconvertible debt, with terms similar to the Notes, excluding the conversion feature. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to interest expense over the term of the Notes using the interest method. The amount recorded to additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification.

Fair Value of Financial Instruments

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on the following three levels of inputs, of which the first two are considered observable and the last one is considered unobservable:

-

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—Unobservable inputs.

Observable inputs are based on market data obtained from independent sources.

Accretion of Preferred Stock

Prior to the completion of the Company's IPO in March 2011, the Company accreted the Series D and Series E preferred stock carrying values to their estimated redemption values over the period to their earliest redemption date, May 10, 2014, using the interest rate method. Upon the completion of the Company's IPO, all of the Series D and Series E preferred stock converted to common stock and redemption rights to the preferred stockholders were removed. For the year ended December 31, 2011, the Company recorded accretion of \$5.2 million.

Concentration of Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, restricted cash, and accounts receivable. The Company's cash and cash equivalents are deposited with several financial institutions which, at times, may exceed federally insured limits, as applicable.

Accounts receivable include amounts due from clients with principal operations primarily in the United States. The Company performs ongoing credit evaluations of its clients.

For the years ended December 31, 2013, 2012 and 2011, no single client comprised more than 10% of the Company's revenue. No single client had an accounts receivable balance greater than 10% of total accounts receivable at December 31, 2013 or 2012.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated into U.S. Dollars at the rates of exchange in effect at the date of the transaction. Transaction gains (losses) were approximately \$(0.3) million, \$0.2 million and \$(0.5) million for the years ended December 31, 2013, 2012 and 2011, respectively, and are included in other, net within other income (expense), net, in the accompanying consolidated statements of operations.

The Company has entities in various countries. For entities where the local currency is different than the functional currency, the local currency financial statements have been remeasured from the local currency into the functional currency using the current exchange rate for monetary accounts and historical exchange rates for nonmonetary accounts, with exchange differences on remeasurement included in other income (loss). To the extent that the functional currency is different than the U.S. Dollar, the financial statements have then been translated into U.S. Dollars using period-end exchanges rates for assets and liabilities and average exchanges rates for the results of operations. Foreign currency translation gains and losses are included as a component of accumulated other comprehensive income or loss in the consolidated balance sheets.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standards update amending the accounting guidance for the presentation of comprehensive income to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendment requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by significant component. The new standard is effective prospectively for reporting periods beginning after December 15, 2012. The new guidance did not have a significant impact on the Company's disclosures and does not have an impact on the Company's results of operations or financial position.

In March 2013, the FASB issued new accounting guidance clarifying the accounting for the release of cumulative translation adjustment into net income when a company either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The Company does not anticipate that the adoption of this guidance will have a significant impact on its financial position, results of operations or cash flows.

In July 2013, the FASB issued a new accounting standards update amending the guidance related to the presentation of unrecognized tax benefits. The accounting standards update states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The new standard is effective for annual and interim

periods for fiscal years beginning after December 15, 2013, and early adoption is permitted. The new guidance is not expected to have a significant impact on the Company's results of operations or financial position.

3. BUSINESS ACQUISITION

On April 5, 2012, the Company completed the acquisition of all of the issued and outstanding shares of Sonar, a New Zealand based SaaS talent management vendor serving small businesses worldwide. Purchase consideration for the acquisition was approximately \$12.5 million in cash and 15,530 shares of the Company's common stock, with a fair value of approximately \$0.3 million, valued on the acquisition date. Approximately \$1.8 million of the cash consideration and the shares issued were placed in escrow pending resolution of any post-acquisition representations and warranties. The escrow period ended in April 2013.

The acquisition has been accounted for under the acquisition method of accounting in accordance with the FASB's Accounting Standards Codification ("ASC") Topic 805, Business Combinations. As such, the Sonar assets acquired and liabilities assumed are recorded at their acquisition-date fair values. Acquisition-related transaction costs are not included as a component of consideration transferred, but are accounted for as an expense in the period in which the costs are incurred. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill, which is not deductible for tax purposes. Goodwill is attributable primarily to expected synergies and other benefits, including the acquired workforce, from combining Sonar with the Company. The Company acquired Sonar to strengthen its ability to serve small businesses with less than 400 employees. The Company's allocation of the total purchase consideration as of April 5, 2012 is summarized below (in thousands):

| | | |
|---------------------------------------|--------|----------|
| Acquired intangible assets: | | |
| Developed technology | | \$3,800 |
| Customer relationships | | 2,400 |
| Non-compete agreements | | 610 |
| Domains/trademark/tradenames | | 320 |
| Total acquired intangible assets | | 7,130 |
| Goodwill | | 8,193 |
| Other assets (including cash of \$76) | | 815 |
| Current liabilities | (506 |) |
| Deferred revenue | (427 |) |
| Borrowings | (557 |) |
| Net deferred tax liabilities | (1,809 |) |
| Net Assets Acquired | | \$12,839 |

The developed technology, customer relationships intangibles, non-compete agreements and trade names/trademarks are being amortized on a straight-line basis over 4, 4, 2.5 and 2 years, respectively, with a combined weighted-average useful life of 3.8 years.

The Company recognized approximately \$0.7 million of acquisition related costs during the year ended December 31, 2012. These costs are included in the Consolidated Statements of Operations under "General and administrative". The results of operations of Sonar have been included in the Company's Consolidated Statements of Operations since the acquisition date of April 5, 2012.

Concurrent with the acquisition, the Company issued 31,164 restricted shares of its common stock, valued at approximately \$0.7 million, to certain Sonar shareholders who also became employees of the combined company post-acquisition. The restricted shares are subject to continued employment and the fair value of the restricted shares will be recognized as a post-acquisition compensation expense over the two-year vesting period.

Unaudited Pro Forma Financial Information

The following table reflects the unaudited pro forma consolidated results of operations as if the Sonar acquisition had taken place on January 1, 2011, after giving effect to certain adjustments including the amortization of acquired intangible assets and the associated tax effect and the elimination of the Company's and Sonar's non-recurring

acquisition-related expenses (in thousands):

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| | For the Years Ended | | |
|----------|---------------------|-------------|-------------|
| | December 31, | | |
| | 2013 | 2012 | 2011 |
| | Actual | Pro Forma | Pro Forma |
| Revenue | \$185,129 | \$118,917 | \$76,449 |
| Net loss | \$(40,426) | \$(31,072) | \$(65,342) |

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated as of January 1, 2011 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma information does not include any adjustments for any restructuring activities, operating efficiencies or cost savings.

4. NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table presents the basic and diluted loss per share attributable to common stockholders (in thousands, except per share amounts):

| | For the Years Ended December 31, | | |
|--|----------------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| Net loss attributable to common stockholders | \$(40,426) | \$(31,390) | \$(69,108) |
| Weighted-average shares of common stock outstanding, excluding shares issued upon early exercise of unvested options and unvested restricted stock | 51,427 | 49,929 | 39,824 |
| Net loss per share attributable to common stockholders—basic and diluted | \$(0.79) | \$(0.63) | \$(1.74) |

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share attributable to common stockholders (in thousands):

| | December 31, | | |
|---|--------------|-------|-------|
| | 2013 | 2012 | 2011 |
| Options to purchase common stock and restricted stock units | 7,730 | 7,331 | 5,845 |
| Convertible notes | 4,682 | — | — |
| Common stock warrants | 4,682 | — | 130 |
| Shares issued for purchase consideration held in escrow | — | 16 | — |
| Common stock subject to repurchase right | — | 10 | 30 |
| Other restricted common stock | 12 | 31 | — |
| Total shares excluded from net loss per share attributable to common stockholders | 17,106 | 7,388 | 6,005 |

Under the treasury stock method, the convertible notes and common stock warrants will have a dilutive impact on net earnings per share when the average stock price for the period exceeds the respective conversion prices and the Company has net income attributable to common stockholders. The Company also entered into note hedge transactions (“Note Hedges”) in connection with the convertible notes with respect to its common stock to minimize the impact of potential economic dilution upon conversion of the convertible notes. The Note Hedges were outstanding as of December 31, 2013. Since the beneficial impact of the Note Hedges were anti-dilutive, they were excluded from the calculation of diluted net income (loss) per share. See Note 9 of the Notes to Consolidated Financial Statements.

5. INVESTMENTS

The Company’s investments in available-for-sale marketable securities are made within the guidelines of its investment policy, which has established guidelines relative to the diversification of the Company’s investments and

their maturities, with the principle objective of capital preservation and maintaining liquidity that is sufficient to meet cash flow requirements.

The following is a summary of investments, including cash equivalents, as of December 31, 2013 (in thousands):

| | December 31, 2013 | | | |
|--------------------|-------------------------|---------------------|----------------------|-------------|
| | Amortized Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value |
| Money market funds | \$65,700 | \$— | \$— | \$65,700 |
| Corporate bonds | 78,488 | 121 | — | 78,609 |
| Agency bonds | 121,307 | 14 | (5 |) 121,316 |
| | \$265,495 | \$135 | \$(5 |) \$265,625 |

The Company's investment in marketable securities had a weighted-average maturity date of approximately seven months. Unrealized gains and losses on investments were not significant, and the Company does not believe the unrealized losses represent other-than-temporary impairments as of December 31, 2013.

6. GOODWILL AND INTANGIBLE ASSETS

Finite-lived Intangibles

The Company has finite-lived intangible assets which are amortized over their estimated useful lives on a straight line basis. The following table presents the gross carrying amount and accumulated amortization of finite-lived intangible assets as of December 31, 2013 and 2012 (in thousands):

| | December 31, 2013 | | | December 31, 2012 | | |
|-------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Developed technology | \$3,800 | \$ (1,649) | \$2,151 | \$3,800 | \$ (700) | \$3,100 |
| Customer relationships | 2,400 | (1,042) | 1,358 | 2,400 | (441) | 1,959 |
| Domains/trademarks/tradenames | 320 | (278) | 42 | 320 | (118) | 202 |
| Software license rights | 1,654 | (759) | 895 | 1,654 | (459) | 1,195 |
| Non-compete agreements | 610 | (424) | 186 | 610 | (179) | 431 |
| Total | \$8,784 | \$ (4,152) | \$4,632 | \$8,784 | \$ (1,897) | \$6,887 |

In January 2012, the Company acquired intellectual property rights associated with a software application for \$0.8 million, financed through a third-party debt arrangement.

In April 2012, the Company recorded additional finite-lived intangible assets totaling \$7.1 million, primarily related to developed technology, customer relationships, trademarks and trade names, and non-compete agreements from the acquisition of Sonar (see Note 3).

Total amortization expense from finite-lived intangible assets were \$2.3 million, \$1.7 million and \$0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Amortization expense of \$1.3 million, \$1.0 million and \$0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively, related to developed technology and software license rights was recorded in cost of revenue and the remainder in "Amortization of certain acquired intangible assets" in the accompanying Consolidated Statements of Operations.

The following table presents the Company's estimate of remaining amortization expense for each of the five succeeding fiscal years for finite-lived intangible assets that existed at December 31, 2013 (in thousands):

| | |
|-------|---------|
| 2014 | \$2,078 |
| 2015 | 1,840 |
| 2016 | 555 |
| 2017 | 146 |
| 2018 | 13 |
| Total | \$4,632 |

Estimated remaining amortization expense of \$1.2 million, \$1.2 million, \$0.4 million, \$0.1 million, and \$13,000 will be recorded in cost of revenue for 2014, 2015, 2016, 2017, and 2018, respectively. The remaining estimated amortization expense will be recorded in amortization of acquired intangible assets within operating expenses.

Goodwill

The following table presents the changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2012 (in thousands):

| | |
|--|---------|
| Goodwill as of December 31, 2011 | \$— |
| Goodwill from Sonar acquisition, April 5, 2012 | 8,193 |
| Goodwill as of December 31, 2012 | \$8,193 |
| Adjustments | — |
| Goodwill as of December 31, 2013 | \$8,193 |

The goodwill recorded in connection with the Sonar acquisition is primarily related to the expected long-term synergies and other benefits, including the acquired workforce, from the acquisition.

7. OTHER BALANCE SHEET AMOUNTS

The balance of property and equipment, net is as follows (in thousands):

| | Useful Life | December 31, | |
|---|-------------|--------------|----------|
| | | 2013 | 2012 |
| Computer equipment and software | 2 – 5 years | \$15,768 | \$9,976 |
| Furniture and fixtures | 7 years | 2,265 | 869 |
| Leasehold improvements | 2 – 6 years | 4,190 | 1,520 |
| Renovation in progress | n/a | 954 | 1,148 |
| | | 23,177 | 13,513 |
| Less: accumulated depreciation and amortization | | (8,741 |) (5,566 |
| Total property and equipment, net | | \$14,436 | \$7,947 |

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was \$3.2 million, \$2.5 million, \$1.8 million, respectively. At December 31, 2013 and 2012, property and equipment includes computer equipment and software under capital leases with a cost basis of \$2.8 million and \$4.6 million, respectively, and accumulated depreciation of \$2.0 million and \$2.8 million, respectively. Depreciation of computer equipment and software under capital leases was \$0.9 million, \$1.1 million, and \$0.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The balance of accrued expenses is as follows (in thousands):

| | December 31, | |
|------------------------|--------------|----------|
| | 2013 | 2012 |
| Accrued bonuses | \$6,860 | \$5,229 |
| Accrued commissions | 7,246 | 3,826 |
| Other accrued expenses | 8,182 | 5,931 |
| Total accrued expenses | \$22,288 | \$14,986 |

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities measured at fair value on a recurring basis include the following as of December 31, 2013 and 2012 (in thousands):

| | December 31, 2013 | | | | December 31, 2012 | | | |
|------------------|-------------------|----------|-----------|---------|-------------------|----------|---------|---------|
| | Fair Value | Level 1 | Level 2 | Level 3 | Fair Value | Level 1 | Level 2 | Level 3 |
| Cash equivalents | \$65,700 | \$65,700 | \$— | \$— | \$51,521 | \$51,521 | \$— | \$— |
| Corporate bonds | 78,609 | — | 78,609 | — | — | — | — | — |
| Agency bonds | 121,316 | — | 121,316 | — | — | — | — | — |
| | \$265,625 | \$65,700 | \$199,925 | \$— | \$51,521 | \$51,521 | \$— | \$— |

The Company's cash equivalents at December 31, 2013 and 2012 consisted of money market funds with original maturity dates of three months or less backed by U.S. Treasury Bills. Cash equivalents are classified as Level 1. As of December 31, 2013, corporate and agency bonds were classified within Level 2 of the fair value hierarchy. The bonds were valued using information obtained from pricing services, which obtained quoted market prices from a variety of industry data providers, security master files from large financial institutions, and other third-party sources. The Company performed supplemental analysis to validate information obtained from its pricing services. As of December 31, 2013, no adjustments were made to such pricing information.

Warrants

The Company's preferred stock warrants were recorded at fair value and were determined to be Level 3 fair value items. The changes in the fair value of preferred stock warrants are summarized below (in thousands):

| | |
|--|----------------------|
| | December 31, 2011 |
| Fair value at beginning of period | \$39,756 |
| Changes in fair value of preferred stock warrant liabilities recorded in the statement of operations | 42,559 |
| Exercise of preferred stock warrants | (82,315) |
| Fair value at end of period | \$— |

The fair value of the warrants to purchase the Company's preferred stock was determined using a Black-Scholes option-pricing model.

The following weighted-average assumptions were used to determine the fair value of the Series C, Series D, and Series E Preferred Stock warrants at the exercise date during March 2011:

| | Series C | Series D | Series E |
|---------------------------------------|----------|----------|----------|
| Risk-free interest rate | 0.1 % | 0.1 % | 0.1 % |
| Expected term (in years) | 0.0 | 0.0 | 0.0 |
| Estimated dividend yield | — | — | — |
| Weighted-average estimated volatility | 43.1 % | 43.1 % | 43.1 % |
| Fair value (in thousands) | \$3,905 | \$56,445 | \$21,965 |

Senior Convertible Notes

The convertible notes are shown in the accompanying consolidated balance sheets at their original issuance value, net of unamortized discount, and are not remeasured to fair value each period. The approximate fair value of our convertible notes as of December 31, 2013 was \$305.4 million. The fair value of the convertible notes were estimated on the basis of quoted market prices, which, due to limited trading activity, are considered Level 2 in the fair value hierarchy.

9. DEBT AND OTHER FINANCING ARRANGEMENTS

Senior Convertible Notes

In 2013, the Company issued senior convertible notes (the “Notes”) raising gross proceeds of \$253.0 million. The Notes are governed by an Indenture, dated June 17, 2013 (“Indenture”), between the Company and U.S. Bank National Association, as trustee. The Notes mature on July 1, 2018, unless earlier repurchased or converted, and bear interest at a rate of 1.50% per year payable semi-annually in arrears on January 1 and July 1 of each year, commencing January 1, 2014.

The Notes are convertible at an initial conversion rate of 18.5046 shares of common stock per \$1,000 principal amount of Notes, which represents an initial conversion price of approximately \$54.04 per share, subject to adjustment for anti-dilutive issuances, voluntary increases in the conversion rate and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company's stock and a liquidation of the Company. Upon conversion, the Company will deliver cash for the principal amount, and the Company has the right to settle any amounts in excess of the principal in cash or shares.

Prior to April 1, 2018, the Notes are only convertible upon satisfaction of certain conditions as follows:

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

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

upon the occurrence of specified corporate events as defined in the Indenture.

Holders of the Notes may convert their Notes at anytime on or after April 1, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date.

The holders of the Notes may require the Company to repurchase all or a portion of their Notes at a cash repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest, upon a fundamental change and events of default, including non-payment of interest or principal and other obligations under the Indenture.

In accounting for the Notes at issuance, the Company separated the Notes into debt and equity components pursuant to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The fair value of the debt component was estimated using an interest rate for nonconvertible debt, with terms similar to the Notes, excluding the conversion feature. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to interest expense over the term of the Notes using the interest method. The amount recorded to additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification. Upon issuance of the \$253.0 million of Notes, the Company recorded \$214.3 million to debt, and \$38.7 million to additional paid-in capital for the debt discount. The Company incurred transaction costs of approximately \$7.3 million related to the issuance of the Notes. In accounting for these costs, the Company allocated the costs to the debt and equity components in proportion to the allocation of proceeds from the issuance of the Notes to such components. Transaction costs allocated to the debt component of \$6.2 million are deferred as an asset and amortized to interest expense over the term of the Notes. The transaction costs allocated to the equity component of \$1.1 million were recorded to additional paid-in capital. The transaction costs allocated to the debt component were recorded as deferred offering costs in other noncurrent assets.

The net carrying amount of the liability component of the Notes as of December 31, 2013 consists of the following (in thousands):

| | | |
|---------------------------|-----------|---|
| Principal amount | \$253,000 | |
| Unamortized debt discount | (35,035 |) |
| Net carrying value | \$217,965 | |

The following table presents the interest expense recognized related to the Notes for year ended December 31, 2013 (in thousands):

| | Year Ended December 31, 2013 |
|--|------------------------------------|
| Contractual interest expense at 1.5% per annum | \$2,045 |
| Amortization of debt issuance costs | 591 |
| Accretion of debt discount | 3,681 |
| Total | \$6,317 |

The net proceeds from the Notes were approximately \$246.0 million after payment of the initial purchasers' offering expenses. The Company used approximately \$49.5 million of the net proceeds of the Notes offering to pay the cost of the Note Hedges described below, which was partially offset by \$23.2 million of the proceeds from the Company's sale of the Warrants also described below.

Note Hedges

Concurrent with the issuance of the Notes, the Company entered into note hedges ("Note Hedges") with certain bank counterparties, with respect to its common stock. The Company paid \$49.5 million for the Note Hedges. The Note Hedges cover approximately 4.7 million shares of the Company's common stock at a strike price of \$54.04 per share, and are exercisable by the Company upon conversion of the Notes. The Note Hedges will expire upon the maturity of the Notes. The Note Hedges are intended to reduce the potential economic dilution upon conversion of the Notes in the event that the fair value per share of the Company's common stock at the time of exercise is greater than the conversion price of the Notes.

Warrants

Separately and concurrently, the Company entered into warrant transactions, whereby it sold warrants to the same bank counterparties as the Note Hedges to acquire up to 4.7 million shares of the Company's common stock at a strike price of \$80.06 per share ("Warrants"), subject to anti-dilution adjustments. The Company received proceeds of \$23.2 million from the sale of the Warrants. The Warrants expire at various dates during 2018 and 2019. If the fair value per share of the Company's common stock exceeds the strike price of the Warrants, the Warrants will reduce diluted earnings per share to the extent that the calculation does not have an anti-dilutive effect.

The amounts paid and received for the Note Hedges and the Warrants have been recorded in additional paid-in capital. The fair value of the Note Hedges and the Warrants are not remeasured through earnings each reporting period.

Silicon Valley Bank

In November 2012, the Company amended its SVB Credit Facility to allow for additional loan advances up to an aggregate of \$5.0 million for the purchase of equipment. In June 2013, concurrent with the issuance of the Notes, the Company repaid its total outstanding borrowings under the SVB Credit Facility in the amount of \$3.0 million. The SVB Credit Facility was extinguished upon the June 2013 repayment.

Other Debt Arrangements

The Company enters into other debt arrangements with finance companies to finance the purchase of property and equipment and software. As of December 31, 2013 and 2012, total amounts outstanding under these arrangements were \$0.9 million and \$1.4 million, respectively. Principal and interest is generally due monthly, through January 2016.

Maturities of outstanding borrowings under the other debt arrangements as of December 31, 2013 were as follows for each year ending December (in thousands):

| | |
|----------------------|-------|
| 2014 | \$519 |
| 2015 | 382 |
| 2016 | 10 |
| Total long-term debt | \$911 |

The weighted-average interest rate on borrowings for the years ended December 31, 2013 and 2012 was 7.0% and 5.2%, respectively.

The estimated fair value of the Company's debt was \$0.9 million and \$1.4 million at December 31, 2013 and 2012, respectively. The fair value was estimated based on discounted cash flow analyses using appropriate current discount rates, taking into consideration the particular terms of the borrowing agreements, at the end of the respective periods. The carrying value of the Company's line of credit was considered to approximate fair market value, as the interest rates of these instruments were based predominantly on variable reference rates. These estimates involve considerable judgment and changes in those assumptions could significantly affect the estimates.

Although the Company has determined the estimated fair value amounts using commonly accepted valuation methodologies, judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on information available as of December 31, 2013 and 2012. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

10. CAPITALIZATION

As of December 31, 2013, the Company's authorized stock consists of 1,000,000,000 shares of common stock, par value of \$0.0001 per share, and 50,000,000 shares of preferred stock, par value of \$0.0001 per share. No shares of preferred stock were issued or outstanding at December 31, 2013 and 2012.

Upon the completion of the Company's IPO in March 2011, all of the then-outstanding shares of preferred stock were automatically converted into 28,809,031 shares of common stock on a one-for-one basis.

11. WARRANTS

Warrants to Purchase Common Stock

In addition to the warrants issued during 2013 as discussed in Note 9, the Company has issued warrants to purchase the Company's common stock in connection with debt arrangements, a distributor agreement and the purchase of certain domain names. All warrants were fully vested, non-forfeitable and immediately exercisable upon issuance and are equity classified. At December 31, 2013, no additional warrants to purchase common stock, other than as discussed in Note 9, were outstanding. During 2012, warrants to purchase 130,000 shares of common stock were exercised at an exercise price of \$1.60 per share.

During 2011, 898,447 shares of common stock, including 133,000 shares issued upon exercise of warrants that were granted to ADP in 2011 as discussed below, were issued upon the exercise of common stock warrants at a weighted-average exercise price of \$0.95 per share.

On May 6, 2009, the Company entered into a five-year global distributor agreement with ADP that provides ADP the right to distribute the Company's core solution to its customers under ADP's name. In connection with the distributor agreement, the Company also entered into a warrant agreement to provide additional incentives to ADP. The warrant agreement provided that ADP was eligible to earn fully vested and immediately exercisable ten-year warrants to purchase between zero and 886,096 shares of the Company's common stock at an exercise price of \$0.53 per share if ADP met specified sales targets for each contract year until the earlier of the completion of the five-year term of the distributor agreement or the completion of an initial public offering of the Company's common stock. When ADP achieved the defined sales targets and earned a warrant for a contract year, the Company recorded the fair value of

such warrant as a reduction of revenue. The Company determined the fair value of these warrants using a Black-Scholes option-pricing model, which incorporated several estimates and assumptions that were subject to significant judgment.

On November 24, 2010, the Company amended its warrant agreement with ADP to modify certain definitions related to future sales targets, to acknowledge that no warrants would be issued for the contract year ended June 30, 2010 and to remove the anti-dilution provisions in the warrant agreement. In connection with the amendment, the Company issued ADP a fully vested and non-forfeitable warrant to purchase 360,000 shares of its common stock at an exercise price of \$0.01 per share, which was valued at approximately \$2.9 million as of the amendment date using the Black-Scholes option pricing model. This amount was recorded as a reduction of revenue in the fourth quarter of 2010 as the agreement provides ADP with the right to be distributor of the Company's services and the Company estimates that ADP will purchase additional services from the Company. In issuing this warrant, the Company considered the strategic importance of its ongoing relationship with ADP and the expected timing of the completion of its IPO, after which ADP would no longer be eligible to earn any warrants.

At December 31, 2010, the Company did not record any reduction in revenue for the contract year ended June 30, 2011, as the minimum specified sales target had not been achieved to earn the applicable warrant as of December 31, 2010.

Upon the completion of the Company's IPO, ADP was no longer eligible to earn warrants under the warrant agreement. However, ADP remained eligible to earn a warrant for the partial contract year that began on July 1, 2010 and ended on March 22, 2011, the closing date of the Company's IPO, if it met pro-rated specified sales targets for that period. For the three months ended March 31, 2011, no reductions of revenue were recorded because the Company concluded that ADP had not met the pro-rated specified sales targets for such partial contract year based on the Company's assessment of the contractual terms of the arrangement, and as of March 31, 2011, it was not considered probable that the Company would be required to issue a warrant for such partial contract year. Pursuant to the terms of the arrangement, the Company notified ADP that it had not earned the warrant for such partial year. ADP contended that it had met the pro-rated specified sales target for the partial contract year that would entitle ADP to a warrant to purchase 443,048 shares of the Company's common stock at an exercise price of \$0.53 per share.

During June 2011, in order to resolve a dispute with respect to this matter, the Company issued ADP a fully vested and non-forfeitable warrant to purchase 133,000 shares of the Company's common stock at an exercise price of \$0.53 per share. The warrant was valued at approximately \$2.5 million using a Black-Scholes option-pricing model as of the issuance date and was recorded as a non-cash reduction of revenue in the second quarter of 2011. In connection with the Company's issuance of the warrant described above, ADP agreed and acknowledged that it is no longer eligible to earn or receive any additional warrants exercisable for shares of the Company's common stock pursuant to the distributor agreement.

12. STOCK OPTION PLANS

1999 and 2009 Plans

In November 1999, the Company adopted the 1999 Stock Plan ("1999 Plan") as amended. In January 2009, the Company adopted the 2009 Plan ("2009 Plan") as amended. Stock options granted under the 1999 and 2009 Plans may be incentive stock options or non-statutory stock options. Incentive stock options may only be granted to employees. Stock purchase rights may also be granted under the 1999 and 2009 Plans. The Board of Directors determines the period over which stock options become exercisable. However, except in specific cases of stock options granted to officers, directors and consultants, stock options become exercisable at a rate of not less than 20% per year over five years from the date the stock options are granted. Options granted under the 1999 and 2009 Plans expire ten years after the grant date and generally vest one-fourth on the first anniversary of the grant and ratably thereafter for the following thirty-six months. The exercise price of incentive stock options and non-statutory stock options cannot be less than 100% and 85%, respectively, of the fair market value per share of the Company's common stock on the grant date as determined by the Company's Board of Directors. If an individual owns stock representing more than 10% of the outstanding shares, the price of each incentive stock option or non-statutory stock option share must be at least 110% of fair market value, as determined by the Board of Directors. The term of the stock options is ten years except for incentive stock options granted to an individual who owns stock representing more than 10% of the outstanding shares, in which case the term of the stock options is 5 years. The Company may also grant options that are immediately exercisable upon the Board of Directors' approval.

At December 31, 2013, no shares are issuable under the 1999 and 2009 Plans.

2010 Plan

In March 2011, upon the completion of the Company's IPO, the Company adopted the 2010 Plan and determined that it will no longer grant any additional awards under the 1999 Plan and the 2009 Plan. However, the 1999 Plan and the 2009 Plan continue to govern the terms and conditions of the outstanding awards previously granted under each respective plan. Upon the adoption of the 2010 Plan, the maximum aggregate number of shares issuable thereunder was 3,680,480 shares, plus (i) any shares subject to stock options or similar awards granted under the 1999 Plan or 2009 Plan prior to March 16, 2011 that expire or otherwise terminate without having been exercised in full and (ii) shares issued pursuant to awards granted under the 1999

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Plan and 2009 Plan that are forfeited to or repurchased by the Company after March 16, 2011, with the maximum number of shares to be added to the 2010 Plan from the 1999 Plan and 2009 Plan equal to 5,614,369 shares of common stock. In addition, the number of shares available for issuance under the 2010 Plan will be annually increased on the first day of each fiscal year beginning with 2012, by an amount equal to the lesser of 5,500,000 shares, 4.5% of the outstanding shares of the Company's common stock as of the last day of the immediately preceding fiscal year, or such other amount as the Company's Board of Directors determines.

Shares issued pursuant to awards under the 2010 Plan that are repurchased by the Company or that expire or are forfeited, as well as shares used to pay the exercise price of an award or to satisfy the minimum tax withholding obligations related to an award, will become available for future grant or sale under the 2010 Plan. In addition, to the extent that an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance under the 2010 Plan.

The 2010 Plan permits the grant of incentive stock options to employees and the grant of non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to the Company's employees, directors and consultants.

Stock Options

The exercise price of stock options granted under the 2010 Plan must equal at least the fair market value of the Company's common stock on the date of grant. The term of an incentive stock option may not exceed ten years; provided, however, that an incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of the Company's stock, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value of the Company's common stock on the grant date.

Restricted Stock Awards

The Company may grant restricted stock under the 2010 Plan. Restricted stock awards are grants of shares of the Company's common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the Board of Directors provides otherwise. Shares of restricted stock that do not vest for any reason will be forfeited by the recipient and will revert to the Company. The fair value of each share of restricted stock granted is equal to the grant date fair market value of the Company's common stock.

Restricted Stock Units

The Company may also grant restricted stock units under the 2010 Plan. The fair value of each restricted stock unit granted is equal to the grant date fair market value of the Company's common stock. The payment of restricted stock units may be in the form of cash, shares, or in a combination thereof, as determined by the Board of Directors. During 2013, the Company granted 172,465 time based restricted stock units under the 2010 Plan.

Stock Appreciation Rights

The Company may also grant stock appreciation rights under the 2010 Plan. Stock appreciation rights allow the recipient to receive the appreciation in the price of the Company's common stock between the date of grant and the exercise date. The payment of stock appreciation rights may be in the form of cash, shares, or in a combination thereof, as determined by the Board of Directors. As of December 31, 2013, no stock appreciation rights had been granted under the 2010 Plan.

Performance Units/Performance Shares

The Company may also grant performance units and performance shares under the 2010 Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals for a predetermined period, established by the Board of Directors, are achieved or the awards otherwise vest. The fair value of each performance unit and performance share awarded is equal to the fair market value of the Company's common stock at the close of the applicable performance period. The payment of performance units and performance shares may be in the form of cash, shares, or a combination thereof, as determined by the Board of Directors.

Under the 2010 Plan, 2,015,533 shares remained available for issuance, at December 31, 2013.

Stock Options

The Company has granted stock options which vest upon meeting service conditions and or performance conditions. Information with respect to stock options which contain performance conditions is discussed separately below. The following table summarizes the stock option activity which contain only service conditions, under the Company's 1999, 2009 and 2010 Plans (in thousands, except per share and term information):

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|---------|---------------------------------|---|---------------------------|
| Outstanding, December 31, 2012 | 6,610 | \$ 12.49 | 8.2 | \$ 112,899 |
| Granted | 2,394 | 43.32 | | |
| Exercised | (1,566) |) 8.58 | | |
| Forfeited | (311) |) 27.00 | | |
| Outstanding, December 31, 2013 | 7,127 | 23.07 | 8.1 | 215,549 |
| Exercisable at December 31, 2013 | 2,890 | 10.46 | 7.0 | 123,833 |
| Vested and expected to vest at December 31, 2013 | 7,022 | \$ 22.91 | 8.1 | \$ 213,492 |

The following table summarizes information about stock options, which contain only service conditions, under the Company's equity incentive plans at December 31, 2013 (in thousands except term information):

| Range of Exercise Prices | Options Outstanding at December 31, 2013 | | Options Exercisable at December 31, 2013 | |
|--------------------------|--|--|--|--|
| | Number of Options | Weighted Average Remaining Contractual Term (in years) | Number of Options | Weighted Average Remaining Contractual Term (in years) |
| \$0.34 to \$1.65 | 841 | 5.6 | 800 | 5.5 |
| \$5.93 to \$8.88 | 1,219 | 6.9 | 866 | 6.9 |
| \$12.54 to \$15.41 | 596 | 7.7 | 289 | 7.7 |
| \$16.24 to \$18.82 | 732 | 8.0 | 458 | 8.0 |
| \$20.85 to \$23.94 | 1,095 | 8.4 | 366 | 8.4 |
| \$27.75 to \$31.44 | 394 | 8.9 | 104 | 8.8 |
| \$33.34 to \$36.15 | 609 | 9.2 | 4 | 9.2 |
| \$40.03 to \$45.76 | 895 | 9.5 | 2 | 9.8 |
| \$50.42 to \$52.72 | 746 | 9.7 | 1 | 9.9 |
| | 7,127 | 8.1 | 2,890 | 7.0 |

The total intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was \$57.7 million, \$23.9 million, and \$19.5 million, respectively. The Company recognized compensation expense related to stock options which contain only service conditions of \$17.2 million, \$10.3 million, and \$3.8 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Unrecognized compensation expense relating to stock options which contain only service conditions was \$59.6 million at December 31, 2013 which is expected to be recognized over a weighted-average period of 2.7 years.

The aggregate grant date fair value of stock options which contain only service conditions granted for the years ended December 31, 2013, 2012 and 2011 was \$51.5 million, \$28.4 million, and \$11.9 million, respectively.

Restricted Stock Awards

On December 1, 2011, the Company granted fully vested restricted stock awards for an aggregate of 7,500 shares of common stock with an aggregate grant date fair value of \$0.1 million, which was recognized as compensation expense in 2011.

In connection with the acquisition of Sonar, the Company issued 31,164 restricted shares of its common stock, valued at approximately \$0.7 million, to certain Sonar shareholders who also became employees of the company post-acquisition. The vesting of the restricted shares is subject to continued employment, and the fair value of the restricted shares is recognized as a post-acquisition compensation expense over the 2 year vesting period (see Note 3). As of December 31, 2013, 18,698 shares were vested.

Restricted Stock Units

Restricted stock unit activity for the year ended December 31, 2013 under the Company's equity incentive plans is summarized as follows (shares in thousands):

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|------------------|---|
| Nonvested shares subject to restricted stock units outstanding at December 31, 2012 | 425 | \$ 14.37 |
| Granted | 173 | 42.90 |
| Forfeited | (2 |) 40.03 |
| Vested | (214 |) 13.15 |
| Nonvested shares subject to restricted stock units outstanding at December 31, 2013 | 382 | \$ 27.81 |

The Company recognized compensation expense related to restricted stock units of \$3.4 million, \$1.7 million and \$0.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. Unrecognized compensation expense related to nonvested restricted stock units was \$8.7 million at December 31, 2013, which is expected to be recognized as expense over the weighted-average period of 2.3 years.

Performance Based Options and Units

During 2012, the Company granted performance-based stock options and restricted stock units to certain employees. The number of awards that the employees may earn is based upon (a) a subsidiary of the Company meeting certain predetermined contracted monthly recurring revenue targets by December 31, 2015, and (b) whether the employee continues to provide service through each measurement date, as defined in the agreement applicable to the award. The awards vest generally over a four year period and have a term of 10 years. The stock options have an exercise price of \$27.75 per share. The Company estimated the grant date fair value for each target level at the grant date and is recognizing stock-based compensation over the vesting period using a graded vesting model based upon the target that is probable of being achieved. Achievement of the probable target would result in stock options to purchase 53,714 shares of common stock and 12,892 restricted units vesting. The maximum number of stock options and restricted stock units that may vest should the maximum target level become probable would be 179,047 and 43,066, respectively. The Company may be required to adjust compensation cost in the future to the extent that another target level becomes probable.

The Company recognized compensation expense related to performance based awards of \$0.3 million and \$0.4 million for the years ended December 31, 2013 and 2012. Unrecognized compensation expense related to nonvested performance based options and restricted stock units was \$0.4 million at December 31, 2013, based on the probable performance target at that date, which is expected to be recognized as expense over the weighted-average period of 2.0 years.

Stock-Based Compensation

Stock-based compensation expense related to stock options, restricted stock units and restricted stock awards is included in the following line items in the accompanying Consolidated Statement of Operations for the years ended December 31, 2013, 2012, and 2011 (in thousands):

| | Years Ended December 31, | | |
|----------------------------|--------------------------|----------|---------|
| | 2013 | 2012 | 2011 |
| Cost of revenue | \$2,207 | \$1,660 | \$581 |
| Sales and marketing | 9,866 | 3,982 | 1,121 |
| Research and development | 2,052 | 949 | 755 |
| General and administrative | 6,715 | 5,616 | 2,045 |
| Total | \$20,840 | \$12,207 | \$4,502 |

In certain instances the Company is responsible for payroll taxes related to stock options exercised or the underlying shares sold by its employees. The Company accrues its obligations at the time of the exercise of the stock options or the sale of the underlying shares.

13. INCOME TAXES

The components of the Company's loss before provision (benefit) for income taxes are as follows (in thousands):

| | Years Ended December 31, | | |
|--|--------------------------|------------|------------|
| | 2013 | 2012 | 2011 |
| United States | \$(36,821) | \$(20,173) | \$(60,300) |
| Foreign | (3,733) | (12,006) | (3,419) |
| Loss before provision for income taxes | \$(40,554) | \$(32,179) | \$(63,719) |

The components of the provision (benefit) for income taxes attributable to continuing operations are as follows (in thousands):

| | Years Ended December 31, | | |
|--------------------------------------|--------------------------|---------|-------|
| | 2013 | 2012 | 2011 |
| Current income tax provision: | | | |
| Federal | \$— | \$— | \$— |
| State | 117 | — | — |
| Foreign | 620 | 176 | 181 |
| Total current income tax provision | 737 | 176 | 181 |
| Deferred income tax benefit: | | | |
| Federal | — | — | — |
| State | — | — | — |
| Foreign | (865) | (965) | — |
| Total deferred income tax benefit | (865) | (965) | — |
| Total income tax (benefit) provision | \$(128) | \$(789) | \$181 |

On a consolidated basis, the Company has incurred operating losses and has recorded a full valuation allowance against its United States and United Kingdom deferred tax assets for all periods to date and, accordingly, has not recorded a provision (benefit) for income taxes for any of the periods presented other than a provision (benefit) for certain foreign income taxes. Certain foreign subsidiaries and branches of the Company provide intercompany services and are compensated on a cost-plus basis, and therefore, have incurred liabilities for foreign income taxes in their respective jurisdictions. The foreign deferred tax benefit for the years ended December 31, 2013 and 2012 is primarily the result of the amortization of net deferred tax liabilities and changes in other deferred taxes recorded in connection with the 2012 acquisition of Sonar (See Note 3).

The differences in the total provision for income taxes that would result from applying the 34% federal statutory rate to loss before provision for income taxes and the reported provision for income taxes are as follows (in thousands):

| | Years Ended December 31, | | |
|--|--------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| U.S. Federal tax benefit at statutory rates | \$(13,784 |) \$(10,941 |) \$(21,688 |
| State income taxes, net of federal tax benefit | (415 |) (60 |) (916 |
| Foreign rate differential | 1,354 | 1,008 | 219 |
| Preferred stock warrant charges | — | — | 14,470 |
| Stock based compensation | 2,039 | 1,360 | 474 |
| Other permanent differences | 410 | 654 | 188 |
| Other | 76 | (194 |) 206 |
| Valuation allowance | 10,192 | 7,384 | 7,228 |
| Total income tax (benefit) provision | \$(128 |) \$(789 |) \$181 |

Major components of the Company's deferred tax assets (liabilities) at December 31, 2013 and 2012 are as follows (in thousands):

| | December 31, | |
|---|--------------|-----------|
| | 2013 | 2012 |
| Deferred tax assets: | | |
| Accrued expenses | \$2,029 | \$1,306 |
| Long-lived intangible assets — basis difference | 7,846 | 5,155 |
| Net operating loss carryforwards | 33,823 | 24,392 |
| Stock-based compensation | 4,818 | 2,671 |
| Deferred revenue | 1,905 | 2,375 |
| Convertible note hedge | 16,705 | — |
| Other | 452 | 274 |
| Total deferred tax assets | 67,578 | 36,173 |
| Valuation allowance | (48,558 |) (34,081 |
| Deferred tax assets, net of valuation allowance | 19,020 | 2,092 |
| Deferred tax liabilities: | | |
| Prepaid expenses and deferred commissions | (3,613 |) (2,029 |
| Long-lived fixed assets — basis difference | (2,136 |) (805 |
| Convertible note discount | (13,028 |) — |
| Other | (120 |) — |
| Total deferred tax liabilities | (18,897 |) (2,834 |
| Net deferred tax assets (liabilities) | \$123 | \$(742 |

At December 31, 2013, the Company had federal, state and foreign net operating losses of approximately \$145.8 million, \$152.8 million and \$18.0 million, respectively. The federal net operating loss carryforward will begin expiring in 2019, the state net operating loss carryforward began expiring in 2013, and the foreign net operating loss has an unlimited carryforward period. The Internal Revenue Code of 1986, as amended, imposes substantial restrictions on the utilization of net operating losses in the event of an “ownership change” of a corporation. Accordingly, a company's ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382 (“IRC Section 382”). Events which may cause limitations in the amount of the net operating losses that the Company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. Due to the effects of historical equity issuances, the Company has determined that the future utilization of a portion of its net operating losses is limited annually pursuant to IRC Section 382. The Company has determined that none of its net operating losses will expire because of the annual limitation.

The Company has recorded a full valuation allowance against its otherwise recognizable United States and United Kingdom deferred income tax assets as of December 31, 2013. Management has determined, after evaluating all positive and negative historical and prospective evidence, that it is more likely than not that these assets will not be realized. The net

increase to the valuation allowance of \$14.5 million, \$7.4 million and \$7.2 million for the years ended December 31, 2013, 2012 and 2011, respectively, was primarily due to additional net operating losses generated by the Company and basis differences in long-lived assets.

The Company has excluded excess windfall tax benefits resulting from stock option exercises as components of the Company's gross deferred tax assets and corresponding valuation allowance disclosures, as tax attributes related to such windfall tax benefits should not be recognized until they result in a reduction of taxes payable. The tax effected amount of gross unrealized net operating loss carryforwards, and their corresponding valuation allowances resulting from stock option exercises was \$25.8 million at December 31, 2013. When realized, excess windfall tax benefits are credited to additional paid-in capital. The Company follows the with-and-without allocation approach to determine when such net operating loss carryforwards have been realized.

Deferred income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries because the Company's practice and intent is to permanently reinvest these earnings. The cumulative amount of such undistributed earnings was \$0.9 million and \$0.5 million at December 31, 2013 and December 31, 2012, respectively. Any future distribution of these non-U.S. earnings may subject the Company to both U.S. federal and state income taxes, as adjusted for tax credits, and foreign withholding taxes that the Company estimates would be \$125,000 and \$76,000 at December 31, 2013 and 2012, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2013, 2012, and 2011 is as follows (in thousands):

| | Years Ended December 31, | | |
|---|--------------------------|-------|-------|
| | 2013 | 2012 | 2011 |
| Balance at January 1 | \$276 | \$276 | \$276 |
| Additions for tax positions related to the current year | — | — | — |
| Balance at December 31 | \$276 | \$276 | \$276 |

The provision for uncertain tax positions relate to business in territories outside of the United States.

The Company's policy is to classify interest and penalties on uncertain tax positions as a component of tax expense. An insignificant amount of interest and penalties on unrecognized tax benefits were accrued during the 2013 tax year. The amount of accrued interest and penalties on unrecognized tax benefits was insignificant, as of December 31, 2013 and 2012. The Company does not expect the change in uncertain tax positions to have a material impact on its financial position, results of operations or liquidity. The recognition of previously unrecognized tax benefits on uncertain positions would result in a \$0.3 million tax benefit. The Company does not expect any significant increases or decreases to its unrecognized tax benefits within the next twelve months.

The Company is subject to United States federal income tax as well as to income tax in multiple state and foreign jurisdictions, including the United Kingdom. Federal income tax returns of the Company are subject to IRS examination for the 2010 through 2013 tax years. State income tax returns are subject to examination for the 2009 through 2013 tax years. The Company finalized an IRS examination for the 2011 tax year which did not result in any material adjustments. Foreign income tax returns are subject to examination for the 2007 through 2013 tax years.

14. GEOGRAPHIC INFORMATION

Revenue by geographic region, as determined based on the location of the Company's clients is set forth below (in thousands):

| | Years Ended December 31, | | |
|---------------------|--------------------------|-----------|----------|
| | 2013 | 2012 | 2011 |
| Revenue | | | |
| United States | \$128,983 | \$81,837 | \$50,874 |
| United Kingdom | 19,448 | 12,930 | 8,612 |
| All other countries | 36,698 | 23,147 | 13,536 |
| Total revenue | \$185,129 | \$117,914 | \$73,022 |

Revenue from clients located in the United States is presented net of a \$2.5 million reduction of revenue relating to a common stock warrant issued to ADP during the year ended December 31, 2011 (See Note 11).

Property and equipment by region is set forth below (in thousands):

| | December 31, | |
|-----------------------------------|--------------|----------|
| | 2013 | 2012 |
| Property and equipment, net | | |
| United States | \$ 10,455 | \$ 7,529 |
| United Kingdom | 3,185 | 343 |
| All other countries | 796 | 75 |
| Total property and equipment, net | \$ 14,436 | \$ 7,947 |

15.401(K) SAVINGS PLAN

The Company has a defined contribution savings plan (the “Plan”) under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the plan may be made at the discretion of the Board of Directors. Beginning in 2012, the Plan provided for a Company match of employees’ contributions in an amount equal to 50% of an employee’s contributions up to \$2,400 per year which vests over four years.

The Company incurred approximately \$0.8 million and \$0.3 million of matching contribution expenses related to the Plan during the years ended December 31, 2013 and 2012, respectively.

16.COMMITMENTS AND CONTINGENCIES

Leases

The Company has various non-cancelable operating leases for its offices and its managed hosting facilities and services. These leases expire at various times through 2019. Certain lease agreements contain renewal options, rent abatement, and escalation clauses. The Company recognizes rent expense on a straight-line basis over the lease term, commencing when the Company takes possession of the property. Certain of the Company’s office leases entitle the Company to receive a tenant allowance from the landlord. The Company records tenant allowances as a deferred rent credit, which the Company amortizes on a straight-line basis, as a reduction of rent expense, over the term of the underlying lease. Total rent expense under operating leases was approximately \$4.1 million, \$3.2 million, \$1.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company finances the purchase of equipment under capital lease arrangements and other debt arrangements (See Note 9).

Future minimum lease payments under non-cancelable operating and capital leases at December 31, 2013 are as follows (in thousands):

| | Operating Leases | Capital Leases |
|--|------------------|----------------|
| 2014 | \$4,938 | \$943 |
| 2015 | 5,042 | 217 |
| 2016 | 5,365 | 4 |
| 2017 | 5,511 | — |
| 2018 | 5,512 | — |
| Thereafter | 410 | — |
| Total minimum lease payments | \$26,778 | 1,164 |
| Less: Amounts representing interest | | (41) |
| Present value of capital lease obligations | | 1,123 |
| Less: Current portion | | (905) |
| Long-term portion of capital lease obligations | | \$218 |

Letters of Credit

During 2013, the Company amended a standby letter of credit in association with its building lease and signed a standby letter of credit for a contractual arrangement in Israel. In addition, the Company maintains standby letters of credit in association with other contractual arrangements. Total letters of credit outstanding at December 31, 2013 was \$1.5 million.

Other Commitments

In July 2012, the Company entered into a cloud subscription agreement with a provider of enterprise cloud computing and social enterprise solutions. The Company is obligated to pay remaining fees under this agreement of \$0.8 million in 2014 and \$1.0 million in 2015.

As of December 31, 2013, the Company had agreements with various third party service providers whereby the Company has committed to assign certain dollar amounts or hours of professional service projects related to implementation and other services for clients of the Company's core solution. In aggregate, these estimated commitments total approximately \$15.3 million in 2014, \$15.2 million in 2015, \$3.8 million in each of 2016, 2017 and 2018, and \$3.5 million thereafter.

Guarantees and Indemnifications

The Company has made guarantees and indemnities under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions, including revenue transactions in the ordinary course of business. In connection with certain facility leases, the Company has agreed to indemnify its lessors for certain claims arising from the facility or the lease. The Company is obligated to indemnify its directors and officers to the maximum extent permitted under the laws of the State of Delaware. However, the Company has a directors and officers insurance policy that may reduce its exposure in certain circumstances and may enable it to recover a portion of future amounts that may be payable, if any. The duration of the guarantees and indemnities varies and, in many cases, is indefinite but subject to statutes of limitations. To date, the Company has made no payments related to these guarantees and indemnities. The Company estimates the fair value of its indemnification obligations as insignificant based on this history and the Company's insurance coverage and therefore has not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets.

Litigation

During 2012, the Company received an unfavorable ruling in arbitration related to an employment matter. Based on this ruling, the Company has estimated the probable loss for this matter, including both the award and estimated plaintiff attorneys' fees, to be approximately \$2.6 million and accrued this amount within other current liabilities. The Company determined that insurance recovery for this loss is probable, and has recorded a related receivable in other current assets for this matter. Based on the above, the Company believes this matter will not have a material adverse effect on the Company's business, operating results, cash flows or financial condition.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. If the Company determines that it is probable that a loss has been incurred and the amount is reasonably estimable, the Company will record a liability. Except for the matter described above, the Company has determined that it does not have a potential liability related to any legal proceedings or claims that would individually or in the aggregate materially adversely affect its financial conditions or operating results.

Taxes

From time to time, various federal, state and other jurisdictional tax authorities undertake review of the Company and its filings. In evaluating the exposure associated with various tax filing positions, the Company accrues charges for possible exposures. The Company believes any adjustments that may ultimately be required as a result of any of these reviews will not be material to its consolidated financial statements.

17. RELATED PARTY TRANSACTIONS

In 2010, the Cornerstone OnDemand Foundation, or the Foundation, was formed to empower communities in the United States and Internationally by increasing the impact of the non-profit sector through the utilization of talent management technology including our core solution and strategies. The Company's CEO is on the Board of Directors of the Foundation. The Company does not direct the Foundation's activities, and accordingly, the Company does not

consolidate the Foundation's statement of activities with its financial results. During the current year, the Company has provided at no charge certain resources to the Foundation, with approximate value of \$1.3 million.

During June 2010, an executive officer of an accounting software company joined the Company's Board of Directors. During May 2012, an executive officer of a travel and expense management software company joined the Company's Board of Directors. For the years ended December 31, 2013, 2012 and 2011, the Company recorded \$0.5 million, \$0.3 million and \$0.1 million, respectively, in expenses related to the use of the accounting and travel and expense software from companies whose executive officers serve on the Company's Board of Directors.

18. SUBSEQUENT EVENTS

On January 1, 2014, shares issuable under the Company's 2010 Employee Stock Purchase Plan increased by 524,699 shares and shares issuable under the Company's 2010 Plan increased by 2,361,145 shares in accordance with the automatic annual increase provisions of such plans. No shares have been issued under the 2010 Employee Stock Purchase Plan.

During January and February 2014, the Board of Directors granted stock options to purchase 284,670 shares of common stock at a weighted-average exercise price of \$55.51 per share. The stock options vest over four years. During January and February 2014, the Board of Directors granted restricted stock units for 10,500 shares of common stock which vest over annually over four years.

19. SELECTED QUARTERLY DATA (UNAUDITED)

The following unaudited quarterly consolidated statements of operations for each of the quarters in the years ended December 31, 2013 and 2012 have been prepared on a basis consistent with the Company's audited annual financial statements and include, in the opinion of management, all normal recurring adjustments necessary for the fair statement of the financial information contained in these statements.

Quarter Ended

| | (in thousands, except per share data) | | | | | | | |
|---|---------------------------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|
| | Mar. 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | Mar. 31, 2013 | June 30, 2013 | Sept. 30, 2013 | Dec. 31, 2013 |
| Revenue | \$24,002 | \$26,718 | \$30,768 | \$36,426 | \$37,657 | \$44,346 | \$48,270 | \$54,856 |
| Cost of revenue | 6,844 | 7,890 | 9,135 | 10,722 | 11,252 | 13,164 | 13,644 | 15,488 |
| Gross profit | 17,158 | 18,828 | 21,633 | 25,704 | 26,405 | 31,182 | 34,626 | 39,368 |
| Operating expenses: | | | | | | | | |
| Sales and marketing | 16,237 | 17,422 | 18,624 | 21,280 | 23,010 | 26,274 | 28,601 | 31,852 |
| Research and development | 3,093 | 3,431 | 4,101 | 4,261 | 4,419 | 5,232 | 5,716 | 5,893 |
| General and administrative | 5,954 | 5,792 | 6,600 | 7,566 | 8,566 | 7,530 | 8,261 | 9,215 |
| Amortization of certain acquired intangible assets | — | 237 | 251 | 251 | 251 | 251 | 251 | 251 |
| Total operating expenses | 25,284 | 26,882 | 29,576 | 33,358 | 36,246 | 39,287 | 42,829 | 47,211 |
| Loss from operations | (8,126) | (8,054) | (7,943) | (7,654) | (9,841) | (8,105) | (8,203) | (7,843) |
| Other income (expense): | | | | | | | | |
| Interest income (expense) and other income (expense), net | 96 | (514) | 18 | (2) | (92) | (714) | (2,747) | (3,009) |
| Loss before income tax (provision) benefit | (8,030) | (8,568) | (7,925) | (7,656) | (9,933) | (8,819) | (10,950) | (10,852) |
| Income tax (provision) benefit | (82) | 334 | 298 | 239 | (1) | 136 | (104) | 97 |
| Net loss | \$(8,112) | \$(8,234) | \$(7,627) | \$(7,417) | \$(9,934) | \$(8,683) | \$(11,054) | \$(10,755) |
| Net loss per share, basic and diluted | \$(0.16) | \$(0.17) | \$(0.15) | \$(0.15) | \$(0.20) | \$(0.17) | \$(0.21) | \$(0.21) |
| Weighted average common shares outstanding, basic and diluted | 49,384 | 49,763 | 50,163 | 50,486 | 50,798 | 51,153 | 51,544 | 52,185 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), refers to controls and procedures 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 such information is accumulated and

communicated to a company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013, the end of the period covered by this Annual Report on Form 10-K. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

(b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of our consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and
- provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect financial statement misstatements. Also, projections of any evaluation of internal control effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which appears in Item 8 of this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be included in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013 under the captions "Proposal 1— Election of Directors," "Executive Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included under the caption “Executive Compensation and Related Information” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included under the caption “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included under the caption “Employment Contracts, Termination of Employment and Change-In-Control Agreements” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item will be included under the caption “Principal Accounting Fees and Services” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013, and is incorporated herein by reference.

With the exception of the information incorporated in Items 10, 11, 12, 13, and 14 of this Annual Report on Form 10-K, our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2013 is not deemed “filed” as part of this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of this report are as follows:

1. Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules:

Financial Statement Schedules have been omitted as information required is inapplicable or the information is presented in the consolidated financial statements and the related notes.

3. Exhibits:

The documents listed in the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2014.

CORNERSTONE ONDEMAND, INC.

By: /s/ Adam L. Miller
 Name: Adam L. Miller
 Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Adam L. Miller and Perry A. Wallack, jointly and severally, his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

| Signature | Title | Date |
|--|---|-------------------|
| /s/ Adam L. Miller Adam L. Miller | President, Chief Executive Officer and Director (principal executive officer) | February 26, 2014 |
| /s/ Perry A. Wallack Perry A. Wallack | Chief Financial Officer (principal financial and accounting officer) | February 26, 2014 |
| /s/ R. C. Mark Baker R. C. Mark Baker | Director | February 26, 2014 |
| /s/ Harold W. Burlingame Harold W. Burlingame | Director | February 26, 2014 |
| /s/ Byron B. Deeter Byron B. Deeter | Director | February 26, 2014 |
| /s/ James McGeever James McGeever | Director | February 26, 2014 |

| Signature | Title | Date |
|--|----------|----------------------|
| /s/ Joe Payne Joe Payne | Director | February 26, 2014 |
| /s/ S. Steven Singh S. Steven Singh | Director | February 26, 2014 |

Exhibits and Financial Statements

Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|----------------|---|---------------------------|------------|---------|--------------------|
| | | Form | File No. | Exhibit | Filing Date |
| 2.1 | Amended and Restated Share Purchase Agreement, dated as of April 5, 2012, by and among the Company, Dolphin Acquisition Limited, Sonar Limited, the Company Stockholders (as defined therein), and, with respect to Article III only, the Stockholder Representative (as defined therein). The schedules and exhibits referenced in the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request. | 10-Q | 001-35098 | 2.1 | May 15, 2012 |
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant. | S-1/A | 333-169621 | 3.2 | November 9, 2010 |
| 3.2 | Amended and Restated Bylaws of the Registrant. | S-1/A | 333-169621 | 3.4 | November 9, 2010 |
| 4.1 | Indenture between the Registrant and U.S. Bank National Association, dated as of June 17, 2013. | 8-K | 001-35098 | 4.1 | June 17, 2013 |
| 10.1* | Form of Indemnification Agreement between the Registrant and each of its directors and executive officers. | S-1/A | 333-169621 | 10.1 | December 17, 2010 |
| 10.2* | The Registrant's 1999 Stock Plan, including the form of stock option agreement, as amended and currently in effect. | S-1 | 333-169621 | 10.2 | September 29, 2010 |
| 10.3* | The Registrant's 2009 Equity Incentive Plan, including forms of stock option agreements, as currently in effect. | S-1 | 333-169621 | 10.3 | September 29, 2010 |
| 10.3A* | Form of Restricted Stock Unit Award Agreement under 2009 Equity Incentive Plan. | S-1/A | 333-169621 | 10.3A | December 17, 2010 |
| 10.4* | The Registrant's 2010 Equity Incentive Plan, including form of stock option agreement. | S-1/A | 333-169621 | 10.4 | December 17, 2010 |
| 10.5* | The Registrant's 2010 Employee Stock Purchase Plan. | S-1/A | 333-169621 | 10.5 | December 17, 2010 |
| 10.6* | Employment Agreement between the Registrant and Adam Miller, dated as of November 8, 2010. | S-1/A | 333-169621 | 10.6 | November 9, 2010 |
| 10.7* | Employment Agreement between the Registrant and Perry Wallack, dated as of November 8, 2010. | S-1/A | 333-169621 | 10.7 | November 9, 2010 |
| 10.8* | Employment Agreement between the Registrant and Steven Seymour, dated as of November 8, 2010. | S-1/A | 333-169621 | 10.8 | November 9, 2010 |
| 10.9* | Amended and Restated Employment Agreement between the Registrant and David J. Carter, dated as of November 8, 2010. | S-1/A | 333-169621 | 10.9 | November 9, 2010 |
| 10.9A* | 2009 Sales Commission Plan between the Registrant and David J. Carter. | S-1/A | 333-169621 | 10.9A | February 11, 2011 |

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| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|----------------|--|---------------------------|------------|---------|--------------------|
| | | Form | File No. | Exhibit | Filing Date |
| 10.9B* | 2010 Sales Commission Plan between the Registrant and David J. Carter. | S-1/A | 333-169621 | 10.9B | February 11, 2011 |
| 10.9C* | 2011 Sales Commission Plan between the Registrant and David J. Carter. | S-1/A | 333-169621 | 10.9C | February 11, 2011 |
| 10.9D* | 2012 Sales Commission Plan between the Registrant and David J. Carter. | 10-Q | 001-35098 | 10.2 | November 14, 2012 |
| 10.9E* | 2013 Sales Commission Plan between the Registrant and David J. Carter. | 10-Q | 001-35098 | 10.2 | August 7, 2013 |
| 10.10* | Amended and Restated Unlimited Term Employment Contract between the Registrant and Vincent Belliveau. | S-1/A | 333-169621 | 10.10 | February 11, 2011 |
| 10.10A* | 2010 Sales Commission Plan between the Registrant and Vincent Belliveau. | S-1/A | 333-169621 | 10.10B | February 11, 2011 |
| 10.10B* | 2011 Sales Commission Plan between the Registrant and Vincent Belliveau. | S-1/A | 333-169621 | 10.10C | February 11, 2011 |
| 10.10C* | 2012 Sales Commission Plan between the Registrant and Vincent Belliveau. | 10-Q | 001-35098 | 10.1 | November 14, 2012 |
| 10.10D* | 2013 Sales Commission Plan between the Registrant and Vincent Belliveau. | 10-Q | 001-35098 | 10.3 | August 7, 2013 |
| 10.11* | Employment Agreement between the Registrant and Mark Goldin, dated as of May 24, 2010. | S-1 | 333-169621 | 10.11 | September 29, 2010 |
| 10.12* | Form of Change of Control Severance Agreement between the Registrant and certain of its executive officers | 10-Q | 001-35098 | 10.4 | August 7, 2013 |
| 10.13* | Description of 2013 Executive Bonus Plan | 8-K | 001-35098 | n/a | April 30, 2013 |
| 10.14 | Master Service Agreement (United States) between the Registrant and Equinix Operating Co., Inc., dated as of November 6, 2009. | S-1 | 333-169621 | 10.17 | September 29, 2010 |
| 10.15 | Master Service Agreement (United Kingdom) between the Registrant and Equinix (United Kingdom) Limited, dated as of November 4, 2009. | S-1 | 333-169621 | 10.18 | September 29, 2010 |
| 10.16 | Office Lease between Water Garden Realty Holding LLC and the Registrant, dated as of November 30, 2011 | 10-K | 001-35098 | 10.16 | March 6, 2012 |
| 10.17 | First Amendment to the Office Lease between Water Gardens Realty Holding LLC and the Registrant, dated as of April 24, 2012 | 10-Q | 001-35096 | 10.1 | May 9, 2013 |
| 10.18 | Second Amendment to the Office Lease between Water Garden Realty Holding LLC and the Registrant, dated as of February 28, 2013 | 10-Q | 001-35096 | 10.2 | May 9, 2013 |
| 21.1 | List of subsidiaries of the Registrant | | | | |

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Incorporated by Reference

| Exhibit Number | Exhibit Description | Form | File No. | Exhibit | Filing Date |
|----------------|--|------|----------|---------|-------------|
| 23.1 | Consent of PricewaterhouseCoopers LLP | | | | |
| 24.1 | Power of Attorney (contained in the signature page to this Annual Report) | | | | |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. | | | | |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302(a) 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 | | | | |

* Indicates a management contract or compensatory plan or arrangement. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Cornerstone OnDemand, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

† The financial information contained in these XBRL documents are unaudited.