Tableau Software Inc
Form 10-Q
November 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

o 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: 001-35925

TABLEAU SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-0945740 (I.R.S. Employer Identification Number)

837 North 34th Street, Suite 200
Seattle, Washington 98103
(Address of principal executive offices and zip code)

(206) 633-3400
(Registrant's telephone number, including area code)

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

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

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

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

As of November 4, 2014, there were approximately 44,649,460 shares of the registrant's Class A common stock and 24,686,254 shares of the registrant's Class B common stock outstanding.

TABLEAU SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2014
Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Tableau Software, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2014	December 31, 2013
	(in thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$644,516	$252,674
Accounts receivable, net of allowance for doubtful accounts of $750 and $805	67,497	61,158
Prepaid expenses and other current assets	9,322	7,180
Income taxes receivable	2,094	2,033
Deferred income taxes	9,367	9,136
Total current assets	732,796	332,181
Property and equipment, net	38,799	21,338
Deferred income taxes	774	589
Deposits and other assets	1,526	819
Total assets	$773,895	$354,927
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$5,426	$2,178
Accrued compensation and employee related benefits	27,113	27,187
Accrued liabilities	13,959	8,456
Income taxes payable	234	178
Deferred revenue	93,306	66,290
Total current liabilities	140,038	104,289
Deferred revenue	6,884	3,264
Other long-term liabilities	4,812	2,714
Total liabilities	151,734	110,267
Commitments and contingencies (Note 6)		
Stockholders’ equity		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized; none issued	—	—
Class B common stock, $0.0001 par value, 75,000,000 shares authorized; 24,691,681 and 33,421,033 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	3	4
Class A common stock, $0.0001 par value, 750,000,000 shares authorized; 44,631,686 and 28,777,653 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	4	3
Additional paid-in capital	631,521	239,406
Accumulated other comprehensive income (loss)	149	(71)
Retained earnings (accumulated deficit)	(9,516)	5,318
Total stockholders’ equity	622,161	244,660
Total liabilities and stockholders’ equity	$773,895	$354,927

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

Tableau Software, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Revenues				
License	$69,763	$41,951	$178,562	$101,895
Maintenance and services	34,706	19,128	91,131	49,086
Total revenues	104,469	61,079	269,693	150,981
Cost of revenues				
License	273	237	568	523
Maintenance and services	9,268	4,341	24,806	11,951
Total cost of revenues (1)	9,541	4,578	25,374	12,474
Gross profit	94,928	56,501	244,319	138,507
Operating expenses				
Sales and marketing (1)	58,565	32,189	147,936	83,426
Research and development (1)	29,022	15,438	77,186	42,514
General and administrative (1)	11,111	6,345	28,953	18,064
Total operating expenses	98,698	53,972	254,075	144,004
Operating income (loss)	(3,770)	2,529	(9,756)	(5,497)
Other income (expense), net	353	(177)	(163)	(350)
Income (loss) before income tax expense (benefit)	(3,417)	2,352	(9,919)	(5,847)
Income tax expense (benefit)	1,214	(89)	4,915	(1,678)
Net income (loss)	$(4,631)	$2,441	$(14,834)	$(4,169)
Net income (loss) per share attributable to common stockholders:				
Basic	$(0.07)	$0.04	$(0.22)	$(0.09)
Diluted	$(0.07)	$0.03	$(0.22)	$(0.09)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	68,966	59,143	66,923	47,093
Diluted	68,966	71,348	66,923	47,093

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Cost of revenues	$614	$113	$1,457	$291
Sales and marketing	4,810	1,442	12,271	3,506
Research and development	5,550	1,473	13,771	3,785
General and administrative	1,539	702	4,025	1,951

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

Tableau Software, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income (loss)	$(4,631)	$2,441	$(14,834)	$(4,169)
Other comprehensive income (loss):				
Foreign currency translation adjustment	117	(5)	220	(41)
Comprehensive income (loss)	$(4,514)	$2,436	$(14,614)	$(4,210)

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

Tableau Software, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Operating activities		
Net loss	$(14,834)	$(4,169)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization expense	9,473	4,580
Provision for doubtful accounts	(26)	230
Stock-based compensation expense	31,524	9,533
Excess tax benefit from stock-based compensation	(3,758)	(823)
Deferred income taxes	3,532	701
Changes in operating assets and liabilities		
Accounts receivable	(7,398)	(13,479)
Prepaid expenses, deposits and other assets	(2,910)	(2,812)
Income taxes receivable	(61)	(3,453)
Deferred revenue	32,232	19,527
Accounts payable and accrued liabilities	9,102	9,028
Income taxes payable	66	216
Net cash provided by operating activities	56,942	19,079
Investing activities		
Purchase of property and equipment	(26,588)	(11,515)
Sale of property and equipment	1,694	—
Net cash used in investing activities	(24,894)	(11,515)
Financing activities		
Proceeds from public offering, net of underwriters' discount and offering costs	344,077	176,974
Proceeds from exercise of stock options	12,714	1,672
Excess tax benefit from stock-based compensation	3,758	823
Net cash provided by financing activities	360,549	179,469
Effect of exchange rate changes on cash and cash equivalents	(755)	2
Net increase in cash and cash equivalents	391,842	187,035
Cash and cash equivalents		
Beginning of period	252,674	39,302
End of period	$644,516	$226,337
Supplemental information		
Accrued purchases of property and equipment	$3,649	$3,155
Estimated asset retirement obligations recognized	667	—
Property and equipment acquired under build-to-suit lease	11,600	—
Property and equipment sold in sale-leaseback transaction	11,600	—

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

Tableau Software, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Note 1. Description of Business

Tableau Software, Inc., a Delaware corporation, and its wholly-owned subsidiaries (the “Company,” "we," "us" or "our") are headquartered in Seattle, Washington. Our software products put the power of data into the hands of everyday people, allowing a broad population of business users to engage with their data, ask questions, solve problems and create value. Based on innovative core technologies originally developed at Stanford University, our products dramatically reduce the complexity, inflexibility and expense associated with traditional business intelligence applications. We currently make four key products: Tableau Desktop, a self-service, powerful analytics product for anyone with data; Tableau Server, a business intelligence platform for organizations; Tableau Online, a cloud-based hosted version of Tableau Server; and Tableau Public, a free cloud-based platform for analyzing and sharing public data.
Note 2. Summary of Significant Accounting Policies
Basis of Presentation

The accompanying unaudited condensed consolidated financial information has been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet data as of December 31, 2013 was derived from audited financial statements, but does not include all disclosures required by GAAP. The condensed consolidated financial information should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on February 27, 2014.

In the opinion of management, the accompanying unaudited condensed consolidated financial information includes all normal recurring adjustments necessary for a fair presentation of the Company's financial position, results of operations, comprehensive loss and cash flows for the interim periods, but is not necessarily indicative of the results that may be expected for the year ending December 31, 2014. All intercompany accounts and transactions have been eliminated in consolidation.

Public Offerings

In May 2013, we completed our initial public offering ("IPO") whereby 9,430,000 shares of Class A common stock were sold to the public at a price of $31.00 per share. We sold 6,230,000 shares of Class A common stock and the selling stockholders sold 3,200,000 shares of Class A common stock. We received aggregate proceeds of $177.0 million from the IPO, net of underwriters' discounts and commissions and offering expenses. Upon the closing of the IPO, all shares of our outstanding convertible preferred stock automatically converted into shares of Class B common stock.

In March 2014, we closed a follow-on offering, in which we sold 4,000,000 shares of our Class A common stock at a price to the public of $89.25 per share. The aggregate offering price for shares sold in the offering was approximately $344.1 million, net of underwriting discounts, commissions and offering costs.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include depreciable lives for property and equipment, stock-based compensation, income taxes, accrued liabilities, and collectability of accounts receivable. Actual results could differ from those estimates.

Risks and Uncertainties

Inherent in our business are various risks and uncertainties, including our limited operating history and development of advanced technologies in a rapidly changing industry. These risks include our ability to manage our rapid growth and our ability to attract new customers and expand sales to existing customers, as well as other risks and uncertainties. In the event that we do not successfully implement our business plan, certain assets may not be recoverable, certain liabilities may not be paid and investments in our capital stock may not be recoverable. Our success depends upon the acceptance of our technology, the development of sales and distribution channels, and our ability to generate significant revenues from the use of our technology.

Segments

We follow the authoritative literature that established annual and interim reporting standards for an enterprise’s operating segments and related disclosures about its products and services, geographic regions and major customers.

We operate our business as one operating segment. Our chief operating decision makers are our Chief Executive Officer and Chief Financial Officer, who review financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance and allocating resources.

Concentrations of Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We extend credit to customers based upon an evaluation of the customer’s financial condition and generally collateral is not required. As of September 30, 2014 and December 31, 2013, no individual customer accounted for 10% or more of total accounts receivable. For the three and nine months ended September 30, 2014 and 2013, no individual customer represented 10% or more of our total revenues.

Leases and Asset Retirement Obligations

Leases are categorized at their inception as either operating or capital leases. Within some lease agreements, rent holidays and other incentives are included. Lease costs are recognized on a straight-line basis, over the term of the agreement generally beginning once control of the space is achieved, without regard to deferred payment terms, such as rent holidays that defer the commencement date of required payments. Additionally, incentives received are treated as a reduction of costs over the term of the agreement.

Leased buildings under build-to-suit lease arrangements are capitalized and included in property and equipment when we are involved in the construction of the structural improvements or take construction risk prior to the commencement of the lease. Upon completion of the construction under the build-to-suit leases, we assess whether those arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If we continue to be the deemed owner, the facilities would be accounted for as financing leases.

Liabilities are established for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Assets are recorded to increase the carrying amount of the related long-lived assets in the period in which the obligation is incurred. Such assets are depreciated over the estimated useful life of the asset, and the recorded liabilities are accreted to the future value of the estimated retirement costs.

Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 related to revenue recognition. The new guidance sets forth a new five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. ASU 2014-09 provides retrospective or modified prospective methods of initial adoption and is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted. We are currently evaluating the method of adoption and the impact that this standard will have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 related to going concern. The new guidance explicitly requires that management assess an entity's ability to continue as a going concern and may require additional detailed disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Though permitted, we do not plan to early adopt. We do not believe that this standard will have a significant impact on our consolidated financial statements.

As an “emerging growth company”, the Jumpstart Our Business Startups Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies.

Note 3. Stockholders' Equity

Common Stock

Our certificate of incorporation, as amended and restated, authorizes us to issue 75,000,000 shares of Class B common stock, $0.0001 par value per share, and 750,000,000 shares of Class A common stock, $0.0001 par value per share. Each holder of Class B common stock is entitled to ten votes per share and each holder of Class A common stock is entitled to one vote per share. At its discretion, the board of directors may declare dividends on shares of common stock, subject to the rights of our preferred stockholders, if any. Upon liquidation or dissolution, holders of common stock will receive distributions only after preferred stock preferences have been satisfied.

Note 4. Stock-Based Compensation

A summary of the option activity under our equity incentive plan during the nine months ended September 30, 2014 is presented below:

	Options Outstanding			
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2013	12,236,400	$7.64		
Options exercised	(3,089,585)	4.12		
Options canceled	(161)	25.91		
Options forfeited	(189,327)	13.67		
Options outstanding at September 30, 2014	8,957,327	$8.73	7.22	$572,544
Vested and expected to vest at September 30, 2014	8,773,499	$8.64	7.20	$561,558
Exercisable at September 30, 2014	4,778,878	$6.60	6.54	$315,625

We also grant Restricted Stock Unit ("RSU") awards to our employees and non-employee directors under the provisions of our equity incentive plan. The fair value of an RSU is determined by using the closing price of our Class A common stock on the New York Stock Exchange on the date of grant. An RSU award entitles the holder to receive shares of the Company’s Class A common stock as the award vests, which is generally based on the

9

requisite service period. The Company's unvested RSUs do not have nonforfeitable rights to dividends or dividend equivalents.

The following provides a summary of our RSU activity during the nine months ended September 30, 2014:

	Number of Shares Underlying Outstanding RSUs	Weighted-Average Grant-Date Fair Value per RSU
RSUs outstanding at December 31, 2013	574,350	$64.06
RSUs granted	1,817,802	78.26
RSUs vested	(35,096)	59.80
RSUs forfeited	(61,008)	80.10
RSUs outstanding at September 30, 2014	2,296,048	$74.94

Stock-based compensation expense is amortized using the straight-line method over the requisite service period. As of September 30, 2014, total unrecognized compensation cost, adjusted for estimated forfeitures, related to stock options and unvested RSUs was approximately $161.1 million, which is expected to be recognized over a period of approximately 3.3 years.

The summary of shares available for issuance for equity based awards (including stock options and RSUs) for the nine months ended September 30, 2014 are as follows:

	Shares Available for Grant
Balances at December 31, 2013	5,313,281
Authorized	3,109,934
Granted	(1,817,802)
Canceled	161
Forfeited	250,335
Balances at September 30, 2014	6,855,909

Note 5. Income Taxes

Our income tax expense or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our effective tax rate was (35.5)% and (3.8)% for the three months ended September 30, 2014 and 2013, and (49.6)% and 28.7% for the nine months ended September 30, 2014 and 2013, respectively. The change in effective tax rates over both the three and nine month periods is a result of the expiration of the U.S. research and development tax credits as of December 31, 2013 and an increase in non-deductible stock-based compensation in 2014.

During the nine months ended September 30, 2014, we recognized income tax expense of $4.9 million, which includes $1.3 million of discrete tax benefits relating primarily to disqualifying dispositions on incentive stock options. During the nine months ended September 30, 2013, we recognized an income tax benefit of $1.7 million, which included $1.1 million of discrete tax benefits relating to the reinstatement of the U.S. research and development tax credits.

Note 6. Commitments and Contingencies

As of September 30, 2014, our principal obligations consisted of obligations outstanding under non-cancellable leases. We lease our facilities under operating leases that expire at various dates through 2025. The following table represents our non-cancellable minimum lease payments as of September 30, 2014 (in thousands):

Period Ending	Amount
Remainder of 2014	$2,441
2015	9,334
2016	8,521
2017	7,883
2018	7,200
Thereafter	32,398
Total	$67,777

On February 5, 2014, we entered into a ten year lease agreement, which began in August 2014, upon completion of leasehold improvements. The lease includes two optional renewal periods of five years each. During the second quarter of 2014, we capitalized $11.6 million into construction in progress and recorded a corresponding long-term liability for build-to-suit lease agreements under which we were considered the owner, for accounting purposes, during the construction period. During the third quarter of 2014, at the end of the construction period, we met the criteria for sale-leaseback and therefore decapitalized $11.6 million in construction in progress and removed the corresponding long term liability. We have no continuing involvement in the property, other than a normal leaseback.

We are subject to certain routine legal proceedings, as well as demands and claims that arise in the normal course of our business. We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to include the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

We are not aware of any pending legal proceedings that, individually or in the aggregate, would have a material adverse effect on our business, operating results, or financial condition. We may in the future be party to litigation arising in the ordinary course of business, including claims that we allegedly infringe upon third party intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

Note 7. Segments and Information about Revenues by Geographic Area

The following table presents our revenues by geographic region of end users who purchased products or services for the periods presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
United States and Canada	$80,360	$49,887	$208,730	$122,905
International	24,109	11,192	60,963	28,076
Total revenues	$104,469	$61,079	$269,693	$150,981

Note 8. Net Income (Loss) Per Share

Immediately prior to the closing of our IPO in May 2013, all outstanding shares of our Series A preferred stock and Series B preferred stock were converted into Class B common stock. We issued 6,230,000 shares of Class A common stock in the IPO. In addition, 3,200,000 shares of Class B common stock (including 2,000,000 shares of Class B common stock issued upon the conversion of our preferred stock) held by our existing stockholders were converted into Class A common stock and sold in the IPO. As a result, as of September 30, 2014, Class A and Class B common stock are the only outstanding classes of capital stock of the Company. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each holder of Class B common stock is entitled to ten votes per share and each share of Class A common stock is entitled to one vote per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder, and are automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions.

Net income per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities for periods in which we have net income. As all shares of Series A and Series B preferred stock were converted into shares of Class B common stock in connection with our IPO, there have been no shares of preferred stock outstanding since the IPO, and therefore there was no allocation to preferred shares in the three and nine months ended September 30, 2014 and 2013.

The following table presents the computation of basic and diluted net income (loss) per share attributable to common stockholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Basic net income (loss) attributable to common stockholders:				
Net income (loss)	$(4,631)	$2,441	$(14,834)	$(4,169)
Weighted average shares used to compute basic net income (loss) per share	68,966	59,143	66,923	47,093
Net income (loss) per share attributable to common stockholders - basic	$(0.07)	$0.04	$(0.22)	$(0.09)
Diluted net income (loss) attributable to common stockholders:				
Net income (loss)	$(4,631)	$2,441	$(14,834)	$(4,169)
Weighted average shares used to compute basic net income (loss) per share	68,966	59,143	66,923	47,093
Effect of potentially dilutive shares:				
Stock awards	—	12,205	—	—
Weighted average shares used to compute diluted net income (loss) per share	68,966	71,348	66,923	47,093
Net income (loss) per share attributable to common stockholders - diluted	$(0.07)	$0.03	$(0.22)	$(0.09)

For the three months ended September 30, 2014 and the nine months ended September 30, 2014 and 2013, outstanding stock awards were antidilutive because of our net loss, and as such, their effect has not been included in the calculation of basic or diluted net loss per share attributable to common stockholders.

The following shares subject to outstanding common stock awards were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented as their effect would have been antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Shares subject to outstanding common stock awards	11,253	6	11,253	15,468

Note 9. Fair Value Measurements

We categorize assets and liabilities recorded at fair value based upon the level of judgment associated with inputs used to measure their fair value. The levels of the fair value hierarchy are as follows:

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

- Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- Level 3—Inputs are unobservable inputs based on our own assumptions and valuation techniques used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table presents the fair value of our financial assets using the fair value hierarchy:

	September 30, 2014			
Description	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$626,045	$—	$—	$626,045

	December 31, 2013			
Description	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$238,810	$—	$—	$238,810

We have no financial assets or liabilities measured using Level 2 or Level 3 inputs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this report and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 27, 2014.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expe “intend,” “may,” “plan,” “project,” “seek,” “should,” “strategy,” “target,” “will,” “would” and similar expressions or variations identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled “Risk Factors” included under Part II, Item 1A of this report. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Our mission is to help people see and understand data. Our software products put the power of data into the hands of everyday people, allowing a broad population of business users to engage with their data, ask questions, solve problems and create value. Based on innovative core technologies originally developed at Stanford University, our products dramatically reduce the complexity, inflexibility and expense associated with traditional business intelligence applications. We currently offer four products: Tableau Desktop, a self-service analytics product for anyone with data; Tableau Server, a business intelligence platform for organizations; Tableau Online, a cloud-based hosted version of Tableau Server; and Tableau Public, a free cloud-based platform for analyzing and sharing public data.

We have sought to rapidly improve the capabilities of our products over time and intend to continue to invest in product innovation and leadership. We were founded in January 2003 and we introduced Tableau Desktop in December 2003, our first version of Tableau Server in March 2007, our first version of Tableau Public in February 2010 and our first version of Tableau Online in July 2013. Building on our foundational technology innovations, we have released eight major versions of our software, each expanding and improving our products' capabilities. Our most recent major release, Tableau 8.0, includes several new features including Web and mobile authoring, free form dashboards, forecasting, integration with enterprise applications such as salesforce.com and Google Analytics, and application programming interfaces, or APIs. During the second quarter of 2014, we released Tableau 8.2, which introduced several new features, including Story Points, which allows users to create interactive data-driven stories. Tableau 8.2 also allows Tableau Desktop software to run natively on the Mac.

Our products are used by people of diverse skill levels across all kinds of organizations, including Fortune 500 corporations, small and medium-sized businesses, government agencies, universities, research institutions, and non-profits. As of September 30, 2014, we had over 23,000 customer accounts located in over 100 different countries. We define a customer account as a purchaser of our products. Customer accounts are typically organizations. In some cases, organizations will have multiple groups purchasing our software, which we count as discrete customer accounts.

Our distribution strategy is based on a “land and expand” business model and is designed to capitalize on the ease of use, low up-front cost and collaborative capabilities of our software. To facilitate rapid adoption of our products, we provide fully-functional free trial versions of our products on our website and have created a simple pricing model. After an initial trial or purchase, which is often made to target a specific business need at a

14

grassroots level within an organization, the use of our products often spreads across departments, divisions, and geographies, via word-of-mouth, discovery of new use cases, and our sales efforts.

We generate revenues in the form of license fees and related maintenance and services fees. License revenues reflect the revenues recognized from sales of licenses to new customer accounts and additional licenses to existing customer accounts. License fees include perpetual, term, and subscription license fees. Fees from perpetual licenses comprised more than 90% of our license revenues for the three and nine months ended September 30, 2014. Maintenance and services revenues reflect the revenues recognized from fees paid for maintenance services (including support and unspecified upgrades and enhancements when and if they are available) and, to a lesser extent, for training and professional services that help our customers maximize the benefits from using our products. A substantial majority of our maintenance and services revenues to date has been attributable to revenues from maintenance agreements. When purchasing a license, a customer also typically purchases one year of maintenance service and has the opportunity to purchase maintenance service annually thereafter. We expect maintenance and services revenues to become a larger percentage of our total revenues as our customer base grows.

Our direct sales approach includes inside sales teams and field sales teams. We also sell our products through indirect sales channels including technology vendors, resellers, original equipment manufacturers, or OEMs, and independent software vendors, or ISVs. We view these partners as an extension of our team, playing an integral role in our growth. We plan to continue to invest in our partner programs to help us enter and grow in new markets while complementing our direct sales efforts.

With approximately 23% of our total revenues from customers located outside the United States and Canada in both the three and nine months ended September 30, 2014, we believe there is significant opportunity to expand our international business. Our products currently support eight languages and we are aggressively expanding our direct sales force and indirect sales channels outside the United States.

Our quarterly results reflect seasonality in the sale of our products and services. Historically, we believe a pattern of increased license sales in the fourth fiscal quarter as a result of industry buying patterns has positively impacted total revenues in that period, which has resulted in low or negative sequential revenue growth in the first quarter compared to the prior quarter.

We have been growing rapidly in recent periods. Our total revenues for the three and nine months ended September 30, 2014 were \$104.5 million and \$269.7 million, respectively, compared to \$61.1 million and \$151.0 million for the three and nine months ended September 30, 2013, respectively. We increased the total number of customer accounts that had purchased our products to over 23,000 as of September 30, 2014 as compared to over 15,000 customer accounts as of September 30, 2013.

During the three and nine months ended September 30, 2014, we significantly increased the size of our workforce, particularly in our sales and marketing and research and development ("R&D") organizations, expanded internationally, and invested in our operational infrastructure to support our growth. As a result of our significant investments in growth, we incurred a net loss in both of the three and nine months ended September 30, 2014. Our net loss for the three and nine months ended September 30, 2014 was \$4.6 million and \$14.8 million, respectively, compared to net income of \$2.4 million for the three months ended September 30, 2013 and net loss of \$4.2 million for the nine months ended September 30, 2013.

During the three and nine months ended September 30, 2014, there were 200 and 477 sales transactions greater than \$100,000, respectively, compared to 119 and 276 for the corresponding periods in 2013.

Factors Affecting Our Performance

We believe that our performance and future success are dependent upon a number of factors, including our ability to continue to expand and further penetrate our customer base, innovate and enhance our products, and invest in our infrastructure. While each of these areas presents significant opportunities for us, they also pose significant risks and challenges that we must successfully address. See the section of this report titled “Risk Factors.”

15

Investment in Expansion and Further Penetration of Our Customer Base

Our performance depends on our ability to continue to attract new customers and to increase acceptance of our products within our existing customers, both domestically and internationally. Our ability to increase acceptance amongst existing customers is particularly important in light of our land and expand business model. We believe the existing market for business analytics software is underserved. We believe that we have an addressable market that is substantially larger than the market for traditional business analytics software. As a result, we believe we have the opportunity to substantially expand our customer base and to increase adoption of our products within and across our existing customers.

In order to expand and further penetrate our customer base, we have made and plan to continue to make significant investments in expanding our direct sales teams and indirect sales channels, and increasing our brand awareness. We plan to continue to significantly increase the size of our sales and marketing team domestically and internationally, particularly in the near term. We also intend to expand our online and offline marketing efforts to increase our brand awareness.

Investment in Innovation and Advancement of Our Products

Our performance is also significantly dependent on the investments we make in our R&D efforts, and in our ability to continue to innovate, improve functionality, adapt to new technologies or changes to existing technologies, and allow our customers to analyze data from a large and expanding range of data stores. We intend to continue to invest in product innovation and leadership, including hiring top technical talent, focusing on core technology innovation, and maintaining an agile organization that supports rapid release cycles.

Investment in Infrastructure

We have made and expect to continue to make substantial investments in our infrastructure in connection with enhancing and expanding our operations domestically and internationally. We expect to continue to open new offices internationally and domestically. Our international expansion efforts have resulted and will result in increased costs and are subject to a variety of risks, including those associated with communication and integration problems resulting from geographic dispersion and language and cultural differences, and compliance with laws of multiple countries. Moreover, the investments we have made and will make in our international organization may not result in our expected benefits. We currently expect to rely on our current cash on hand and cash generated from our operations to fund these investments. These costs could adversely affect our operating results.

Mix and Timing of Sales

Our land and expand business model results in a wide variety of sales transaction sizes, ranging from a single Tableau Desktop order of $1,000 to $2,000 to Tableau Desktop and Tableau Server orders of over $1.0 million. The time it takes to close a transaction, defined as the time between when a sales opportunity is entered in our customer relationship management system until when a related license agreement is signed with the customer, generally varies with the size of the transaction.

Components of Operating Results

Revenues

License revenues. License revenues consist of the revenues recognized from sales of licenses to new customers and additional licenses to existing customers. More than 90% of our license revenues for the quarter ended September 30, 2014 resulted from perpetual licenses, under which we generally recognize the license fee portion of the arrangement upfront, assuming all revenue recognition criteria are satisfied. In addition, a small number of customers have purchased term or subscription licenses, under which we recognize the license fee ratably, on a straight-line basis, over the term of the license. In July 2013, we introduced Tableau Online, a subscription, cloud-based version of Tableau Server. To date, we have not derived a significant amount of revenues from term or subscription licenses.

Maintenance and services revenues. Maintenance and services revenues consist of revenues from maintenance agreements and, to a lesser extent, professional services and training. A substantial majority of our maintenance and services revenues to date has been attributable to revenues from maintenance agreements. When purchasing a perpetual license, a customer also typically purchases one year of maintenance, and has the opportunity to purchase maintenance annually thereafter. We currently charge approximately 25% of the price of the perpetual license for each year of maintenance service, although this price may vary with regard to large enterprise sales. We measure the aggregate perpetual license maintenance renewal rate for our customers in a

12-month period of time, based on a dollar renewal rate for contracts expiring during that time period. Our maintenance renewal rate is measured three months after the 12-month period ends to account for late renewals. Our aggregate maintenance renewal rate for the 12-month period ended June 30, 2014 was over 90%.

Customers with maintenance agreements are entitled to receive support and unspecified upgrades and enhancements if and when they become available during the maintenance term. We recognize the revenues associated with maintenance agreements ratably, on a straight-line method over the associated maintenance term.

When a term or subscription license is purchased, maintenance service is typically bundled with the license for the term of the license period. In arrangements involving a term or subscription license, we recognize both the license and maintenance revenues ratably, on a straight-line method, over the contract term. Term and subscription license revenues are included in license revenues.

We also have a professional services organization focused on both training and assisting our customers to fully leverage the use of our products. We recognize the revenues associated with these professional services on a time and materials basis as we deliver the services or provide the training.

We expect maintenance and services revenues to become a larger percentage of our total revenues as our customer base grows.

Cost of Revenues

Cost of license revenues.   Cost of license revenues primarily consists of referral fees paid to third parties. For Tableau Online, cost of license revenues is calculated through an allocation of shared costs, which was immaterial for the three and nine months ended September 30, 2014.

Cost of maintenance and services revenues.   Cost of maintenance and services revenues includes salaries, benefits and stock-based compensation expense associated with our technical support and services organization, as well as allocated overhead. Allocated overhead includes overhead costs for depreciation of equipment, facilities (consisting of leasehold improvements and rent) and technical operations (including costs for compensation of our personnel and costs associated with our infrastructure). We recognize expenses related to our technical support and services organization as they are incurred. We expect the cost of maintenance and services revenues to increase as a percentage of maintenance and services revenues due to increased investment in our technical support and services organization to support our expanding customer base.

We expect that the cost of revenues will increase as a percentage of total revenues as we expand our technical support capabilities worldwide and seek to expand our product and service offerings.

Gross Profit and Gross Margin

Gross profit is total revenues less total cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. We expect that our gross margin may fluctuate from period to period as a result of changes in product and services mix, direct and indirect sales mix and the introduction of new products by us or our competitors.

Operating Expenses

Our operating expenses are classified into three categories: sales and marketing, research and development, and general and administrative. For each category, the largest component is personnel costs, which include salaries, payroll taxes, employee benefit costs, bonuses, commissions, as applicable, and stock-based compensation expense.

Sales and marketing.   Sales and marketing expenses primarily consist of personnel-related costs attributable to our sales and marketing personnel, commissions earned by our sales personnel, marketing, travel, and facility related costs and allocated overhead. We expect sales and marketing expenses to continue to significantly increase, in absolute dollars, for the remainder of 2014 compared to 2013 primarily due to our planned growth in our sales and marketing organization, both domestically and internationally. We expect sales and marketing expenses to be our largest category of operating expenses as we continue to expand our business.

Research and development.   R&D expenses primarily consist of personnel-related costs attributable to our R&D personnel and contractors, as well as allocated overhead. We have devoted our product development efforts primarily to develop new products, incorporate additional features, improve functionality, support additional languages and adapt to new technologies or changes to existing technologies. We expect that our R&D expenses

will continue to increase, in absolute dollars, in 2014 compared to 2013 as we increase our R&D headcount to further strengthen our software and invest in the development of our products.

General and administrative. General and administrative expenses primarily consist of personnel-related costs attributable to our executive, finance, legal, human resources and administrative personnel, legal, accounting and other professional services fees, other corporate expenses and allocated overhead. We will continue to incur additional expenses associated with being a publicly traded company, including higher legal, corporate insurance and accounting expenses, and the additional costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act and other regulations. We also expect that general and administrative expenses will continue to increase, in absolute dollars, for the remainder of 2014 compared to 2013 as we further expand our operations, particularly internationally.

Other Income (Expense), Net

Other income (expense), net consists primarily of gains and losses on foreign currency transactions and interest income on our cash and cash equivalents balances.

Income Tax Expense (Benefit)

Our income taxes are based on the amount of our taxable income and enacted federal, state and foreign tax rates, as adjusted for allowable credits and deductions. Our provision for income taxes consists of federal, state and foreign taxes.

We generally conduct our international operations through wholly-owned subsidiaries, branches and representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our corporate structure and intercompany arrangements align with the international expansion of our business activities. The application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions. If such a disagreement were to occur, and our positions were not sustained, we could be required to pay additional taxes, interest and penalties, resulting in higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Additionally, our future worldwide tax rate and financial position may be affected by changes in tax laws or the interpretation of such tax laws, such as the Base Erosion Profit Shifting ("BEPS") project initiated by the Organization for Economic Co-operation and Development ("OECD") and recent announcements by Ireland's Minister for Finance related to its 2015 budget.

Our income tax provision may be significantly affected by changes to our estimates for taxes in jurisdictions in which we operate and other estimates utilized in determining our global effective tax rate. Actual results may also differ from our estimates based on changes in tax laws and economic conditions. Such changes could have a substantial impact on the income tax provision and effective income tax rate.

We are subject to the continuous examinations of our income tax returns in various tax jurisdictions and such jurisdictions may assess additional income tax liabilities against us. We are currently under audit by the Internal Revenue Service for taxable years 2012 and 2013. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from our historical income tax provisions. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with GAAP. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

Except as follows, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K, filed with the SEC on February 27, 2014.

Leases and Asset Retirement Obligations

Leases are categorized at their inception as either operating or capital leases. Within some lease agreements, rent holidays and other incentives are included. Lease costs are recognized on a straight-line basis, over the term of the agreement generally beginning once control of the space is achieved, without regard to deferred payment terms, such as rent holidays that defer the commencement date of required payments. Additionally, incentives received are treated as a reduction of costs over the term of the agreement.

Leased buildings under build-to-suit lease arrangements are capitalized and included in property and equipment when we are involved in the construction of the structural improvements or take construction risk prior to the commencement of the lease. Upon completion of the construction under the build-to-suit leases, we assess whether those arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If we continue to be the deemed owner, the facilities would be accounted for as financing leases.

Liabilities are established for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Assets are recorded to increase the carrying amount of the related long-lived assets in the period in which the obligation is incurred. Such assets are depreciated over the estimated useful life of the asset, and the recorded liabilities are accreted to the future value of the estimated retirement costs.

Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 related to revenue recognition. The new guidance sets forth a new five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. ASU 2014-09 provides retrospective or modified prospective methods of initial adoption and is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted. We are currently evaluating the method of adoption and the impact that this standard will have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 related to going concern. The new guidance explicitly requires that management assess an entity's ability to continue as a going concern and may require additional detailed disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Though permitted, we do not plan to early adopt. We do not believe that this standard will have a significant impact on our consolidated financial statements.

As an "emerging growth company", the Jumpstart Our Business Startups Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We will no longer be able to take advantage of this exemption beginning on December 31, 2014, when we will be deemed a large accelerated filer and, as a result, cease to be an "emerging growth company".

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Condensed Consolidated Statements of Operations Data:				
Revenues				
License	$69,763	$41,951	$178,562	$101,895
Maintenance and services	34,706	19,128	91,131	49,086
Total revenues	104,469	61,079	269,693	150,981
Cost of revenues				
License	273	237	568	523
Maintenance and services	9,268	4,341	24,806	11,951
Total cost of revenues (1)	9,541	4,578	25,374	12,474
Gross profit	94,928	56,501	244,319	138,507
Operating expenses				
Sales and marketing (1)	58,565	32,189	147,936	83,426
Research and development (1)	29,022	15,438	77,186	42,514
General and administrative (1)	11,111	6,345	28,953	18,064
Total operating expenses	98,698	53,972	254,075	144,004
Operating income (loss)	(3,770)	2,529	(9,756)	(5,497)
Other income (expense), net	353	(177)	(163)	(350)
Income (loss) before income tax expense (benefit)	(3,417)	2,352	(9,919)	(5,847)
Income tax expense (benefit)	1,214	(89)	4,915	(1,678)
Net Income (loss)	$(4,631)	$2,441	$(14,834)	$(4,169)

(1) Stock based compensation expense included in the condensed consolidated statements of operations above was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Cost of revenues	$614	$113	$1,457	$291
Sales and marketing	4,810	1,442	12,271	3,506
Research and development	5,550	1,473	13,771	3,785
General and administrative	1,539	702	4,025	1,951

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Condensed Consolidated Statements of Operations Data:	(as a percentage of total revenues)			
Revenues				
License	66.8 %	68.7 %	66.2 %	67.5 %
Maintenance and services	33.2 %	31.3 %	33.8 %	32.5 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues				
License	0.3 %	0.4 %	0.2 %	0.3 %
Maintenance and services	8.9 %	7.1 %	9.2 %	7.9 %
Total cost of revenues	9.1 %	7.5 %	9.4 %	8.3 %
Gross profit	90.9 %	92.5 %	90.6 %	91.7 %
Operating expenses				
Sales and marketing	56.1 %	52.7 %	54.9 %	55.3 %
Research and development	27.8 %	25.3 %	28.6 %	28.2 %
General and administrative	10.6 %	10.4 %	10.7 %	12.0 %
Total operating expenses	94.5 %	88.4 %	94.2 %	95.4 %
Operating income (loss)	(3.6)%	4.1 %	(3.6)%	(3.6)%
Other expense, net	0.3 %	(0.3)%	(0.1)%	(0.2)%
Income (loss) before income tax expense (benefit)	(3.3)%	3.9 %	(3.7)%	(3.9)%
Income tax expense (benefit)	1.2 %	(0.1)%	1.8 %	(1.1)%
Net income (loss)	(4.4)%	4.0 %	(5.5)%	(2.8)%

Comparison of Three and Nine Months Ended September 30, 2014 and 2013

Revenues

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	% Change		2014	2013	% Change	
Revenues	(dollars in thousands)							
License	$69,763	$41,951	66.3	%	$178,562	$101,895	75.2	%
Maintenance and services	34,706	19,128	81.4	%	91,131	49,086	85.7	%
Total revenues	$104,469	$61,079	71.0	%	269,693	150,981	78.6	%

Total revenues were $104.5 million for the three months ended September 30, 2014 compared to $61.1 million for the three months ended September 30, 2013, an increase of $43.4 million, with 66% and 81% year-over-year growth in license and maintenance and services revenues, respectively. Total revenue growth was attributable to increased demand for our products and services from new and existing customers. For example, we added over 2,500 new customer accounts in the three months ended September 30, 2014. License revenues increased $27.8 million from the three months ended September 30, 2013 to the three months ended September 30, 2014 as we continued to increase sales both domestically and internationally. The increase in license revenues was a direct result of our investment in our products and in our sales and marketing efforts. The substantial majority of our license revenues was attributable to sales of perpetual licenses. The increase in maintenance and services revenues was primarily due to increases in sales of maintenance agreements resulting from the growth of our customer base. Total revenues derived from our customer accounts outside of the United States and Canada increased, as a percentage of total revenues, to 23% for the three months ended September 30, 2014 from 18% for the three months ended September 30, 2013.

Total revenues were $269.7 million for the nine months ended September 30, 2014 compared to $151.0 million for the nine months ended September 30, 2013, an increase of $118.7 million, with 75% and 86% year-over-year growth in license and maintenance and services revenues, respectively. Total revenue growth was attributable to increased demand for our products and services from new and existing customers. For example, we added over 6,500 new customer accounts in the nine months ended September 30, 2014. License revenues increased $76.7 million from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 as we continued to increase sales both domestically and internationally. The increase in license revenues was a direct result of our investment in our products and in our sales and marketing efforts. The substantial majority of our license revenues was attributable to sales of perpetual licenses. The increase in maintenance and services revenues was primarily due to increases in sales of maintenance agreements resulting from the growth of our customer base. Total revenues derived from our customer accounts outside of the United States and Canada increased, as a percentage of total revenues, to 23% for the nine months ended September 30, 2014 from 19% for the nine months ended September 30, 2013.

Cost of Revenues and Gross Margin

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	% Change		2014	2013	% Change	
Cost of revenues	(dollars in thousands)							
License	$273	$237	15.2	%	$568	$523	8.6	%
Maintenance and services	9,268	4,341	113.5	%	24,806	11,951	107.6	%
Total cost of revenues	$9,541	$4,578	108.4	%	$25,374	$12,474	103.4	%

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Gross Margin								
License	99.6	%	99.4	%	99.7	%	99.5	%
Maintenance and services	73.3	%	77.3	%	72.8	%	75.7	%
Total gross margin	90.9	%	92.5	%	90.6	%	91.7	%

Total cost of revenues was $9.5 million for the three months ended September 30, 2014 compared to $4.6 million for the three months ended September 30, 2013, an increase of $5.0 million. This increase was primarily due to the cost of providing maintenance and services to our expanding customer base, including an increase in compensation expense of $3.0 million related to increased headcount and $1.2 million in facilities and allocated overhead costs. Total gross margin decreased primarily due to an increased investment in our technical support and services organization for personnel and other costs to support our expanding customer base.

Total cost of revenues was $25.4 million for the nine months ended September 30, 2014 compared to $12.5 million for the nine months ended September 30, 2013, an increase of $12.9 million. This increase was primarily due to the cost of providing maintenance and services to our expanding customer base, including an increase in compensation expense of $7.4 million related to increased headcount, $3.1 million in facilities and allocated overhead costs and $1.0 million in additional travel costs. Total gross margin decreased primarily due to an increased investment in our technical support and services organization for personnel and other costs to support our expanding customer base.

Operating Expenses

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	% Change		2014	2013	% Change	
Operating expenses	(dollars in thousands)							
Sales and marketing	$58,565	$32,189	81.9	%	$147,936	$83,426	77.3	%
Research and development	29,022	15,438	88.0	%	77,186	42,514	81.6	%
General and administrative	11,111	6,345	75.1	%	28,953	18,064	60.3	%
Total operating expenses	$98,698	$53,972	82.9	%	$254,075	$144,004	76.4	%

Sales and Marketing

Sales and marketing expenses were $58.6 million for the three months ended September 30, 2014 compared to $32.2 million for the three months ended September 30, 2013, an increase of $26.4 million. This increase was primarily due to an increase in compensation expense of $17.2 million resulting from increased sales headcount as we expanded our sales organization both domestically and internationally, as well as commissions on increased customer orders. The remainder of the increase was primarily attributable to an increase of $4.9 million in marketing costs related to conferences and trade shows, advertising and public relations, $2.8 million in facilities and allocated overhead costs and $1.5 million in additional travel costs.

Sales and marketing expenses were $147.9 million for the nine months ended September 30, 2014 compared to $83.4 million for the nine months ended September 30, 2013, an increase of $64.5 million. This increase was primarily due to an increase in compensation expense of $43.4 million resulting from increased sales headcount as we expanded our sales organization both domestically and internationally, as well as commissions on increased customer orders. The remainder of the increase was primarily attributable to an increase of $8.5 million in marketing costs related to conferences and trade shows, advertising and public relations, $7.1 million in facilities and allocated overhead costs and $4.5 million in additional travel costs.

Research and Development

R&D expenses were $29.0 million for the three months ended September 30, 2014 compared to $15.4 million for the three months ended September 30, 2013, an increase of $13.6 million. This increase was primarily due to an increase in compensation expense of $11.6 million resulting from increased headcount as part of our focus on further developing and enhancing our products and an increase of $1.7 million in facilities and allocated overhead costs.

R&D expenses were $77.2 million for the nine months ended September 30, 2014 compared to $42.5 million for the nine months ended September 30, 2013, an increase of $34.7 million. This increase was primarily due to an increase in compensation expense of $29.2 million resulting from increased headcount as part of our focus on further developing and enhancing our products and an increase of $4.3 million in facilities and allocated overhead costs.

General and Administrative

General and administrative expenses were $11.1 million for the three months ended September 30, 2014 compared to $6.3 million for the three months ended September 30, 2013, an increase of $4.8 million. This increase was primarily due to an increase in compensation expense of $2.9 million resulting from increased headcount to support our overall growth. The remainder of the increase was primarily attributable to an increase of $1.0 million in professional service fees and $0.5 million in facilities and allocated overhead costs.

General and administrative expenses were $29.0 million for the nine months ended September 30, 2014 compared to $18.1 million for the nine months ended September 30, 2013, an increase of $10.9 million. This increase was primarily due to an increase in compensation expense of $6.5 million resulting from increased headcount to support our overall growth. The remainder of the increase was primarily attributable to an increase of $2.2 million in professional service fees and $1.0 million in facilities and allocated overhead costs.

Other Income (Expense), Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Other income (expense), net	$353	$(177)	$(163)	$(350)

Other income (expense), net increased primarily due to currency gains associated with foreign transactions and interest income on available cash balances.

Income Tax Expense (Benefit)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Income tax expense (benefit)	$1,214	$(89)	$4,915	$(1,678)
Effective tax rate	(35.5)%	(3.8)%	(49.6)%	28.7%
Period specific items	$(309)	$—	$(1,325)	$(1,148)

Our effective tax rate was (35.5)% and (3.8)% for the three months ended September 30, 2014 and 2013, and (49.6)% and 28.7% for the nine months ended September 30, 2014 and 2013, respectively. The change in effective tax rates over both the three and nine month periods is a result of the expiration of the U.S. research and development tax credits as of December 31, 2013 and an increase in non-deductible stock-based compensation in 2014.

During the nine months ended September 30, 2014, we recognized income tax expense of $4.9 million, which includes $1.3 million of discrete tax benefits relating primarily to disqualifying dispositions on incentive stock

24

options. During the nine months ended September 30, 2013, we recognized an income tax benefit of $1.7 million, which included $1.1 million of discrete tax benefits relating to the reinstatement of the U.S. research and development tax credits.

Non-GAAP Financial Measures

We believe that the use of non-GAAP gross profit and gross margin, non-GAAP operating income (loss) and operating margin, non-GAAP net income (loss), non-GAAP net income (loss) per basic and diluted common share and free cash flow is helpful to our investors. These measures, which we refer to as our non-GAAP financial measures, are not prepared in accordance with generally accepted accounting principles in the United States, or GAAP. Non-GAAP gross profit is calculated by excluding stock-based compensation expense attributable to cost of revenues from gross profit. Non-GAAP gross margin is the ratio calculated by dividing non-GAAP gross profit by revenues. Non-GAAP operating income (loss) is calculated by excluding stock-based compensation expense from operating income (loss). Non-GAAP operating margin is the ratio calculated by dividing non-GAAP operating income (loss) by revenues. Non-GAAP net income (loss) is calculated by excluding stock-based compensation expense, net of tax, from net income (loss). Non-GAAP net income (loss) per basic and diluted common share is calculated by dividing non-GAAP net income (loss) by the basic and diluted weighted average shares outstanding as presented in the calculation of GAAP net income (loss) per share. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expenses, we believe that providing non-GAAP financial measures that exclude stock-based compensation expense allows for more meaningful comparisons between our operating results from period to period. We calculate free cash flow as net cash provided by operating activities less net cash used in investing activities for purchases of property and equipment. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening our balance sheet. All of our non-GAAP financial measures are important tools for financial and operational decision making and for evaluating our own operating results over different periods of time.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. We urge our investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

The following table summarizes our non-GAAP financial measures:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	(in thousands)							
Non-GAAP gross profit	$95,542		$56,614		$245,776		$138,798	
Non-GAAP gross margin	91.5	%	92.7	%	91.1	%	91.9	%
Non-GAAP operating income	8,743		6,259		21,768		4,036	
Non-GAAP operating margin	8.4	%	10.2	%	8.1	%	2.7	%
Non-GAAP net income	3,882		5,554		6,721		4,062	
Free cash flow *					30,354		7,564	

* Cash flow presented on a nine month basis only

25

The following table presents the reconciliation of gross profit to non-GAAP gross profit:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Gross profit	$94,928	$56,501	$244,319	$138,507
Excluding: Stock-based compensation expense attributable to cost of revenues	614	113	1,457	291
Non-GAAP gross profit	$95,542	$56,614	$245,776	$138,798

The following table presents the reconciliation of gross margin to non-GAAP gross margin:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Gross margin	90.9 %	92.5 %	90.6 %	91.7 %
Excluding: Stock-based compensation expense attributable to cost of revenues	0.6 %	0.2 %	0.5 %	0.2 %
Non-GAAP gross margin	91.5 %	92.7 %	91.1 %	91.9 %

The following table presents the reconciliation of operating income (loss) to non-GAAP operating income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Operating income (loss)	$(3,770)	$2,529	$(9,756)	$(5,497)
Excluding: Stock-based compensation expense	12,513	3,730	31,524	9,533
Non-GAAP operating income	$8,743	$6,259	$21,768	$4,036

The following table presents the reconciliation of operating margin to non-GAAP operating margin:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Operating margin	(3.6)%	4.1 %	(3.6)%	(3.6)%
Excluding: Stock-based compensation expense	12.0 %	6.1 %	11.7 %	6.3 %
Non-GAAP operating margin	8.4 %	10.2 %	8.1 %	2.7 %

The following table presents the reconciliation of net income (loss) to non-GAAP net income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income (loss)	$(4,631)	$2,441	$(14,834)	$(4,169)
Excluding: Stock-based compensation expense, net of tax	8,513	3,113	21,555	8,231
Non-GAAP net income	$3,882	$5,554	$6,721	$4,062
Non-GAAP net income per share attributable to common stockholders:				
Basic	$0.06	$0.09	$0.10	$0.09
Diluted	$0.06	$0.08	$0.10	$0.09
Weighted average shares used to compute non-GAAP net income per share attributable to common stockholders:				
Basic	68,966	59,143	66,923	47,093
Diluted	68,966	71,348	66,923	47,093

The following table presents the reconciliation of net cash provided by operating activities to free cash flow:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Net cash provided by operating activities	$56,942	$19,079
Less: Purchases of property and equipment	26,588	11,515
Free cash flow	$30,354	$7,564
Net cash used in investing activities	$(24,894)	$(11,515)
Net cash provided by financing activities	$360,549	$179,469

Non-GAAP Operating Income

Non-GAAP operating income increased substantially from each of the three and nine months ended September 30, 2013 to the corresponding periods in 2014 as a result of increased domestic and international demand for our products and services from new and existing customers, offset in part by increased operating expenses attributable to increased headcount.

Non-GAAP Net Income

Non-GAAP net income for the three months ended September 30, 2014 decreased as compared to the corresponding period in 2013 as a result of the net loss during the three months ended September 30, 2014. Non-GAAP net income for the nine months ended September 30, 2014 increased as compared to the corresponding period in 2013 as a result of increases in non-GAAP operating income.

Free Cash Flow

Free cash flow is a non-GAAP financial measure that we calculate as net cash provided by operating activities less net cash used in investing activities for purchases of property and equipment. Free cash flow increased from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 primarily due to the increase in net cash provided by operating activities.

Liquidity and Capital Resources

Prior to our initial public offering, or IPO, in May 2013, we financed our operations primarily through cash flows generated by operations, and to a lesser extent the sale of preferred stock.

Our IPO resulted in proceeds to us of $177.0 million, net of underwriters' discounts and commissions and offering expenses. In March 2014, we closed a follow on public offering resulting in proceeds to us of $344.1 million, net of underwriters' discounts and commissions and offering expenses.

As of September 30, 2014, we had cash and cash equivalents totaling $644.5 million, accounts receivable, net of $67.5 million and $592.8 million of working capital.

The following tables show our cash and cash equivalents and our cash flows from operating activities, investing activities and financing activities for the stated periods:

	September 30, 2014	December 31, 2013
	(in thousands)	
Cash and cash equivalents	$644,516	$252,674

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Net cash provided by operating activities	$56,942	$19,079
Net cash used in investing activities	(24,894)	(11,515)
Net cash provided by financing activities	360,549	179,469
Effect of exchange rate changes	(755)	2
Net increase in cash and cash equivalents	$391,842	$187,035

Cash and Cash Equivalents

As of September 30, 2014, our cash and cash equivalents were held for working capital purposes, a majority of which was held in cash deposits and money market funds. We intend to increase our capital expenditures to support the growth in our business and operations. We believe that our existing cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support research and development efforts, the continued expansion of sales and marketing activities, the introduction of new and enhanced software and services offerings, and the continued market acceptance of our products.

Operating Activities

Net cash provided by operating activities was $56.9 million for the nine months ended September 30, 2014. The cash provided by operating activities was affected by a net loss of $14.8 million, stock-based compensation expense of $31.5 million, non-cash depreciation and amortization expense of $9.5 million related to capital expenditures, and a $32.2 million increase in deferred revenue. The increase in deferred revenue was primarily due to increased sales of maintenance agreements. The net cash provided by operating activities was partially offset by changes in operating assets and liabilities as a result of our growth.

Net cash provided by operating activities was $19.1 million for the nine months ended September 30, 2013. The cash provided by operating activities was affected by a net loss of $4.2 million, stock-based compensation expense of $9.5 million, non-cash depreciation and amortization expense of $4.6 million related to capital expenditures, and a $19.5 million increase in deferred revenue. The increase in deferred revenue was primarily due to increased sales of maintenance agreements. The net cash provided by operating activities was partially offset by changes in operating assets and liabilities as a result of our growth.

Investing Activities

Cash outflows for investing activities for the nine months ended September 30, 2014 and 2013 were $24.9 million and $11.5 million, respectively. The cash used for these periods was primarily attributable to capital expenditures to support the growth of our business, including hardware, software, office equipment and leasehold improvements.

Financing Activities

Cash inflows from our financing activities for the nine months ended September 30, 2014 and 2013 were $360.5 million and $179.5 million, respectively. In the nine months ended September 30, 2014, cash provided by financing activities was primarily due to proceeds of $344.1 million from our public offering which closed in March 2014 along with proceeds of $12.7 million from the exercise of stock options. For the nine months ended September 30, 2013, cash provided by financing activities was primarily due to proceeds of $177.0 million from our initial public offering which closed in May 2013.

Obligations and Commitments

In the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on February 27, 2014, as updated in the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014 and June 30, 2014, filed with the SEC on May 7, 2014 and August 8, 2014, respectively, we disclosed that we had approximately $40.4 million in outstanding obligations and commitments related to non-cancellable minimum lease payments. Other than the items discussed below, there have been no material changes to this disclosure as of September 30, 2014.

Subsequent to the June 30, 2014 disclosure, we entered into six additional office lease agreements, with aggregate non-cancellable minimum lease payments of approximately $29.9 million. These payments are due and payable over the full term of each respective lease. See Item 1, "Financial Statements (Unaudited) - Note 6 - Commitments and Contingencies" for additional discussion of our principal contractual commitments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risks during the nine months ended September 30, 2014, compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 27, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we may be involved in various legal proceedings and claims related to alleged infringement of third-party patents and other intellectual property rights, commercial, employment, wage and hour, and other claims. For example, we have been, and may in the future be, put on notice and/or sued by third parties for alleged infringement of their proprietary rights, including patent infringement. We evaluate these claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, and the expected effect on us.

The outcome of any litigation, regardless of its merits, is inherently uncertain. Any intellectual property claims and other lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, lead to attempts on the part of other parties to seek similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices and/or pay monetary damages or enter into short- or long-term royalty or licensing agreements.

In general, the resolution of a legal matter could prevent us from offering our service to others, could be material to our financial condition or cash flows, or both, or could otherwise adversely affect our operating results.

We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. When we make such provisions they are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. In management’s opinion, resolution of these matters is not expected to have a material adverse impact on our consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect our future results of operations or cash flows, or both, of a particular quarter.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risk and uncertainties, including those described below. You should carefully consider the following risks and all of the other information contained in this report, including our condensed consolidated financial statements and related notes, before making an investment decision. While we believe that the risks and uncertainties described below are the material risks currently facing us, additional risks that we do not yet know of or that we currently think are immaterial may also arise and materially affect our business. If any of the following risks materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our Class A common stock could decline, and you may lose some or all of your investment.

Risks Related to Our Business and Industry

Due to our rapid growth, we have a limited operating history at our current scale, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We have been growing rapidly in recent periods, and as a result have a relatively short history operating our business at its current scale. For example, we have significantly increased the number of our employees and have expanded our operations worldwide. Furthermore, we operate in an industry that is characterized by rapid technological innovation, intense competition, changing customer needs and frequent introductions of new products, technologies and services. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in evolving industries. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in the market, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

Our future success will depend in large part on our ability to, among other things:

- hire, integrate, train and retain skilled talent, including members of our direct sales force and software engineers;
- maintain and expand our business, including our operations and infrastructure to support our growth, both domestically and internationally;
- compete with other companies, custom development efforts and open source initiatives that are currently in, or may in the future enter, the market for our software;
- expand our customer base, both domestically and internationally;
- renew maintenance agreements with, and sell additional products to, existing customers;
- improve the performance and capabilities of our software;
- maintain high customer satisfaction and ensure quality and timely releases of our products and product enhancements;
- maintain, expand and support our indirect sales channels and strategic partner network;
- maintain the quality of our website infrastructure to minimize latency when downloading or utilizing our software;
- increase market awareness of our products and enhance our brand; and
- maintain compliance with applicable governmental regulations and other legal obligations, including those related to intellectual property, international sales and taxation.

If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above as well as those described elsewhere in this “Risk Factors” section, our business will be adversely affected and our results of operations will suffer.

We may not be able to sustain our revenue growth rate or profitability in the future.

While we have achieved profitability on an annual basis over the past three years, we have not consistently achieved profitability on a quarterly basis during that same period. For example, we had net losses in the fourth quarter of 2012, the first and second quarters of 2013 and the first, second and third quarters of 2014. We expect expenses to increase substantially in the near term, particularly as we make significant investments in our sales, marketing and engineering organizations, expand our operations and infrastructure both domestically and internationally and develop new products and new features for and enhancements of our existing products. In addition, in connection with operating as a public company, we are incurring additional significant legal, accounting and other expenses that we did not incur as a private company.

Moreover, as we grow our business, we expect our revenue growth rates to slow in future periods due to a number of reasons, which may include slowing demand for our products, increasing competition, a decrease in

the growth of our overall market, our failure, for any reason, to continue to capitalize on growth opportunities, the maturation of our business or the decline in the number of organizations into which we have not already expanded. Accordingly, our historical revenue growth should not be considered indicative of our future performance.

We have been growing rapidly and expect to continue to invest in our growth for the foreseeable future. If we fail to manage this growth effectively, our business and results of operations will be adversely affected.

We have experienced rapid growth in a relatively short period of time. Our revenues grew from $151.0 million in the nine months ended September 30, 2013 to $269.7 million in the nine months ended September 30, 2014. Our number of full time employees increased from 1,039 as of September 30, 2013 to 1,717 as of September 30, 2014. During this period, we also expanded our operations in countries outside the United States.

We intend to continue to aggressively grow our business. For example, we plan to continue to hire new employees at a rapid pace, particularly in our sales and engineering groups. If we cannot adequately train these new employees, including our direct sales force, our sales may decrease or our customers may lose confidence in the knowledge and capability of our employees. In addition, we are expanding internationally, establishing operations in additional countries outside the United States, and we intend to make direct and substantial investments to continue our international expansion efforts. We must successfully manage our growth to achieve our objectives. Although our business has experienced significant growth in the past, we cannot provide any assurance that our business will continue to grow at the same rate, or at all.

Our ability to effectively manage any significant growth of our business will depend on a number of factors, including our ability to do the following:

- effectively recruit, integrate, train and motivate a large number of new employees, including our direct sales force, while retaining existing employees, maintaining the beneficial aspects of our corporate culture and effectively executing our business plan;
- satisfy existing customers and attract new customers;
- successfully introduce new products and enhancements;