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CORNERSTONE ONDEMAND INC

FORM 10-K
(Annual Report)

Filed 02/27/15 for the Period Ending 12/31/14

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CIK	0001401680
Symbol	CSOD
SIC Code	7372 - Prepackaged Software
Industry	Software & Programming
Sector	Technology

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

Or

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

For the transition period from to

Commission file number: 001-35098

Cornerstone OnDemand, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-4068197**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1601 Cloverfield Blvd.
Santa Monica, California 90404
(Address of principal executive offices and zip code)

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.0001 per share	NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

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

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

The aggregate market value of voting and non-voting common stock equity held by non-affiliates of the registrant, as of June 30, 2014, the last day of registrant's most recently completed second fiscal quarter, was $1,833,098,875 (based on the closing price for shares of the registrant's common stock as reported by the NASDAQ Global Select Market on June 30, 2014).

On February 20, 2015, 53,882,523 shares of the registrant's common stock, $0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Form 10-K are hereby incorporated by reference from the definitive Proxy Statement for our annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014 .

CORNERSTONE ONDEMAND, INC.
2014 ANNUAL REPORT ON FORM 10-K

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Item 1. *Business*

Overview

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

Cornerstone is a leading global provider of comprehensive talent management solutions delivered as Software-as-a-Service ("SaaS"). Our solutions are designed to enable organizations to meet the challenges they face in empowering and maximizing the productivity of their human capital.

Our Enterprise and Mid-Market solution is a comprehensive and unified cloud-based suite that addresses hiring, developing, engaging employees throughout their careers and cultivating future leaders. Our Enterprise and Mid-Market solution also helps improve business execution through integrating with an organization's extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content.

In addition to our Enterprise and Mid-Market solution, we also offer Cornerstone Growth Edition, formerly known as Cornerstone for Small Business. Cornerstone Growth Edition is a cloud-based talent management solution with learning and performance product offerings targeted to organizations with fewer than 400 employees.

Our clients include multi-national corporations, large domestic and foreign-based enterprises, mid-market companies, public sector organizations, higher education institutions, and non-profit entities. We sell our solutions domestically and internationally through both direct and indirect channels, including direct sales teams throughout North and South America, Europe, and Asia-Pacific and distributor relationships with payroll, consulting and human resource, or HR, services companies.

We have grown our business each of the last 13 years, and since 2002, we have averaged an annual dollar retention rate of approximately 95%, as described in the section titled, " *Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Metrics* ." Since 2001, our implied monthly recurring revenue from existing clients has been greater at the end of each year than at the beginning of the year. Our revenue has grown to $263.6 million in 2014 from $185.1 million in 2013 and from $117.9 million in 2012 . As of December 31, 2014 , 2,153 clients used our Enterprise and Mid-Market solution to empower approximately 18.1 million users across 191 countries in 42 different languages.

The Market

Human capital is both a major asset and expense for all organizations. Based on the U.S. Bureau of Labor Statistics data as of September 2014, total compensation paid to the United States civilian workforce of approximately 155.8 million people was expected to exceed $10.4 trillion in 2014.

Accordingly, organizations have long sought to optimize their investments in human capital. We believe that organizations face six major challenges in maximizing the productivity of their internal and external human capital:

- *Acquiring Talent.* Increasingly seeking to fill open positions by recruiting internally and by leveraging the external networks of their employees, corporate recruiting has evolved from a process that was principally driven by traditional sources such as inbound resume submissions and job board postings to one that is inherently social in nature.
- *Developing Talent* . Effectively orienting new hires and training employees throughout their careers to achieve their full potential, which has become more difficult with the Millennial generation entering the workforce, increasingly distributed workforces and heightened compliance requirements.
- *Engaging Employees.* Connecting with employees at all levels and locations of the organization to keep them motivated, which has become more difficult with the rise of globalization and telecommuting.
- *Improving Business Execution.* Ensuring the effective alignment of employee behavior with the organization's objectives through goal management and employee assessment and development, as well as by linking compensation to performance.
- *Building a Leadership Pipeline.* Identifying, grooming and retaining individuals for leadership positions at all levels and across all parts of the organization, which has become an acute challenge with the growing mobility and turnover of employees and the impending retirements of the Baby Boomers.
- *Integrating with the Extended Enterprise of Customers, Vendors and Distributors.* Delivering training, certification programs and resources to the organization's network of customers, vendors, distributors and other third parties that constitute the organization's extended enterprise, which has become more difficult with the rise of outsourcing and increasing globalization.

Until the advent of software technology in the 1970's, written tracking systems were the only solution available for managing human capital. Software-based solutions such as spreadsheet-based tracking systems, custom-built software applications, third-party human resource information systems and third-party software applications provided by on-premise software vendors gradually became available. We refer to all of these approaches as hosted or on-premise solutions.

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

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

- *Narrow Functionality.* As they only address specific stages of the employee lifecycle, many solutions lack sufficient breadth of functionality to maximize employee productivity effectively.
- *Limited Configurability.* Most solutions are rigid and limit the ability of organizations to match their diverse workflows or to adopt their desired talent management practices.
- *Difficult to Use.* Inputting, updating, analyzing and sharing information is often cumbersome, resulting in low employee adoption and usage.
- *Costly to Deploy, Maintain and Upgrade.* Hosted or on-premise solutions require significant expense and time to deploy as well as require ongoing costs associated with IT support, network infrastructure, maintenance and upgrades.
- *Inability to Scale.* Many solutions are designed to support the needs of smaller organizations and have difficulty meeting the complex functional requirements or the sizeable infrastructure demands of larger enterprises.

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

The Cornerstone OnDemand Answer

Our Enterprise and Mid-Market solution is a comprehensive SaaS suite that consists of product offerings to help organizations manage their recruiting, onboarding, learning, performance, succession, compensation and enterprise social collaboration processes.

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

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

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

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

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

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

- *Easy-to-Use, Personalized User Interface.* Our suite employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the solution. This ease of use limits the need for end-user training, which we believe increases user adoption rates and usage. While we typically train administrators, most clients do not need training on using our products.
- *Software-as-a-Service Solution Lowers the Total Cost of Ownership and Speeds Delivery.* Our suite is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware, and consulting that are typical of hosted or on-premise solutions. With a single code base to maintain, we are able to release improved functionality on a quarterly basis. This is a more rapid pace than most hosted or on-premise solution providers can afford to deliver.
- *Scalable to Meet the Needs of Organizations.* Our suite has been used by Fortune 100 companies since 2001. While the complex needs of these global corporations required us to build a solution that can scale to support large, geographically-distributed employee bases, our suite is capable of supporting deployments of various sizes. Today we service 17 multi-national corporations with over 150,000 active users each. Our largest deployment is for over 350,000 users.
- *Continued Innovation through Collaborative Product Development.* We work collaboratively with our clients on an ongoing basis to develop almost every part of our suite. The vast majority of our thousands of software features were designed with existing and prospective clients based on their specific functional requests.

Our Strategy

Our goal is to empower people, organizations, and communities with our comprehensive talent management solutions. Key elements of our strategy include:

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

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

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

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

- *Invest in Direct Sales in North America.* We believe that the market for talent management is large and remains significantly underpenetrated. As a result, we plan to continue to grow both our enterprise and mid-market direct sales teams.
- *Expand and Strengthen Our Alliances.* We intend to grow our distribution channels through key business alliances, including agreements with global vendors such as Aon Hewitt, Appirio, Inc., Automatic Data Processing, Inc., Ellucian Company L.P., Tribridge, Workday, Inc., and Xerox Corporation, as well as the continued expansion of our regional relationships with distributors like CDP Group, Limited (China), eLearning99 (China), ISQ eLearning (Portugal), Kalleo Learning (South Africa), Logica plc (Europe), Neoris de Mexico, S.A. de C.V. (Mexico), Neospheres SAS (France), Sage Software, Inc. (North America), T2 Optimise PTY Ltd. (Asia Pacific), Talentech (Israel) and Xchanging HR Services Limited (United Kingdom).
- *Significantly Grow Our International Operation.* We believe a substantial opportunity exists to continue to grow sales of our solutions internationally. We intend to grow our Europe, Middle-East and Africa, or EMEA, and Asia-Pacific operations, which provide for direct sales, alliances, services and support in the regions. We have grown our EMEA client base from one client at December 31, 2007 to 316 clients at December 31, 2014 and our Asia-Pacific client base from two clients at December 31, 2009 to 90 clients at December 31, 2014 .

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

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

Acquisitions. In April 2012, we completed our acquisition of Sonar Limited, or Sonar, a cloud-based talent management solution provider serving small businesses globally. Sonar's talent management solution was subsequently rebranded as Cornerstone Growth Edition.

In November 2014 we acquired Evolv Inc., or Evolv, a San Francisco based workforce planning and predictive analytics platform provider. The acquisition accelerates our big data initiative by accelerating the roadmap for workforce planning and predictive analytics. In addition, the acquisition adds a seasoned team with deep machine learning and big data analytics expertise to our portfolio of talented professionals which is expected to create synergies and continue to strengthen our core talent management suite.

Evolv's platform helps organizations utilize relevant internal and external data to objectively evaluate the skills, work experience and personalities of their employees and job candidates. The acquisition of Evolv is expected to expand our clients' ability to make intelligent workforce decisions by providing:

- *Machine Learning Platform Technology* **.** Evolv applies sophisticated predictive models and algorithms to large sets of data for extracting insights from the noise, identifying patterns and uncovering the true drivers of workforce performance.
- *Data Science.* Evolv's team of data scientists has applied several state-of-the-art statistical methodologies and econometric techniques to improve the predictive capabilities of its solutions.
- *Big Data Infrastructure.* Evolv has built highly scalable big data analytics leveraging modern Hadoop, HBase and Hive Big Data technologies to process and analyze massive data sets.

In the future, we may seek to acquire or invest in additional businesses, products or technologies that we believe will complement or expand our solutions, enhance our technical capabilities or otherwise offer growth opportunities.

We are also committed to empowering our employees and the communities around us, in part demonstrated by our involvement in the Cornerstone OnDemand Foundation.

Our Solutions

Our Enterprise and Mid-Market solution is a comprehensive talent management suite that our clients use to find, develop, connect, evaluate and engage their human capital. We built this suite using a single code base and a multi-tenant, multi-user architecture that we host in our data centers. The suite consists of a collection of product offerings to help organizations manage their recruiting, onboarding, learning, performance, succession, compensation, enterprise social collaboration processes and a product to manage training for their external networks of partners, suppliers, resellers, distributors and customers. To complement our product suite, we offer a number of cross-product tools for analytics and reporting, employee profile management and e-learning content aggregation.

Our Product Offerings

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

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

Cornerstone Onboarding. Our onboarding product offering delivers the resources, connections and tools at critical points across the employee lifecycle. The onboarding product offering complements the recruiting product offering to reduce administrative hassle and promote collaboration between employees, managers, HR and across departments. Clients use the onboarding product offering to:

- provide self-service portals where new hires can learn about the company and access critical information;
- administer new hire forms from one centralized location;
- track the entire onboarding process with the ability to set goals and reminders in order to accelerate time to productivity;
- engage new hires by establishing virtual communities and connecting new hires with their colleagues; and
- accommodate transitions across the full employee lifecycle.

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

- manage local and global compliance programs, including the tracking of any recurring or non-recurring license, designation, certification, or other compliance-related training and continuing education requirements;
- access thousands of e-learning classes from our existing off-the-shelf content providers;
- create, publish and deliver the client’s own proprietary training content with our authoring tools;

- automate the administration of instructor-led training sessions, and launch and track virtual classrooms through integrations with third-party tools like Cisco Webex and Microsoft LiveMeeting;
- deliver sophisticated curricula that can include multiple sequenced parts, multiple types of training and enforcement of pre-requisites and follow-up assignments;
- report on costs, participation levels and evaluations of development programs through permission-based dashboards, standard reports and custom reports; and
- enable enterprise social collaboration through rich user profiles as well as the ability to participate in discussions, send messages, contribute to corporate wikis, author blogs, subscribe to information feeds and download audio and videocasts.

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

- cascade, track and report goals across the organization to improve business execution and proactively manage organizational objectives;
- identify competency and skill gaps within an organization through manager and peer assessments, using either the client's own proprietary models or third-party competency models;
- automate the annual and interim review process, benefit from a configurable workflow engine to design review questions and steps, automatically include the reviewee's individual goals and competencies, provide managers with a comment assistant and calibrate review scores;
- allow managers to work with employees to develop personalized development plans or dynamically create individualized development plans based on competency gaps; and
- view dashboards or generate reports and meaningful data on every phase of the performance management cycle.

Cornerstone Succession. Our succession product offering allows clients to proactively plan for organizational change. The succession product offering serves both the employee looking for career advancement and the executive team planning for the future. Clients use the succession product offering to:

- make informed decisions about succession planning, potential organizational changes and retention of high-potential employees at all hierarchical levels;
- develop succession plans that prepare employees for future roles and map development paths;
- create interactive organizational charts that can reflect the current hierarchy of the organization and model for potential changes within the hierarchy; and
- allow managers to visualize their organization in a grid to see performance and potential information.

Cornerstone Compensation. Our compensation product offering allows clients to reward their employees for hard work in direct relation to performance. The compensation product offering enables clients to make more informed decisions about the allocation of base pay, bonus and equity awards. Clients use the compensation product offering to:

- develop a pay-for-performance culture, aligning compensation allocation decisions with actual employee performance and goal achievement;
- coordinate all types of compensation programs, including salaries, merit increases, market adjustments and lump sum payments;
- build and administer various incentive programs;
- pull key data around compensation adjustment guidelines; and
- make informed compensation decisions by combing organizational data, performance data and compensation models.

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

- administer for-profit training programs to their own customers more effectively, providing them with a delivery tool, an automated registration system and e-commerce capabilities;
- improve strategic partner enablement with better training, online best practice centers and more readily-available information on products and services;
- increase customer engagement through social collaboration, virtual communities, educational programs and the enablement of customer-driven product innovation initiatives;

- manage distributor certification programs; and

  deliver training and targeted information to members of trade associations or other member-based organizations.

Cornerstone for Salesforce. Our Cornerstone for Salesforce product is a learning solution developed natively on the Salesforce.com platform. The Cornerstone for Salesforce product allows organizations to improve sales performance by providing access to just-in-time training embedded within Salesforce. Clients use the Cornerstone for Salesforce product offering to:

- deliver just-in-time training and onboarding programs for sales and service teams, partners and customers with target specific content based on opportunity records;
- certify sales and partner knowledge while ensuring compliance standards are met with Salesforce's configurable dashboard reporting for sales leadership; and
- assist sales leadership in identifying top performing reps and those in need of training development through a comprehensive view of a company's sales organization.

Cross-Product Tools

Our Enterprise and Mid-Market solution has a number of capabilities that cross each of our unified product offerings. These include:

- *Analytics, Reporting, and Dashboards.* Our Enterprise and Mid-Market solution employs a proprietary reporting engine. In addition to approximately 145 included standard reports, this solution includes a custom reporting tool that allows clients to create highly specific reports. This solution also includes dashboard technology to present graphical views of complex data.
- *Talent Profiles.* Managers can access integrated Talent Profiles to review key employee data in several locations across our Enterprise and Mid-Market solution. Talent Profiles function as employee identification cards, detailing user record information, performance ratings, succession management data, enterprise social collaboration activity and informal manager comments. These profiles are available throughout this solution where quick access to information is desired, including in performance reviews, organizational charts, succession plans, compensation plans and user record editing.
- *E-Learning Content Aggregation.* We have entered into relationships with many off-the-shelf e-learning content vendors. This enables us to provide access to tens of thousands of e-learning classes for distribution across our Enterprise and Mid-Market solution. E-learning, like other forms of training, can be delivered in conjunction with development plans, competency assessments, succession planning scenarios, talent pools and career path exploration.
- *Cornerstone Mobile.* Cornerstone Mobile allows clients to access some of the products and features of our Enterprise and Mid-Market talent management suite from their mobile device. Key capabilities of Cornerstone Mobile include enabling clients to view employee profiles, search the employee directory, and access just-in-time video training.

Consulting Services

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

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

- *Implementation Services.* We deploy our Enterprise and Mid-Market solution to clients through a documented process of discovery, design, and configuration. Most enterprise implementations require services for systems integration, data loading, and software configuration, as well as support with change management. For mid-market clients, this solution can be implemented in a matter of weeks. For enterprise clients, implementation typically takes three to four months.
- *Integration Services.* We provide a range of services and self-service tools to load data into a client's portal and to integrate our Enterprise and Mid-Market solution with our client's existing systems. Integration services include data feeds to and from HR information systems and enterprise resource planning systems, single sign on, historical data loads and integration of proprietary content.
- *Content Services.* We offer e-learning content consulting services, including training needs analysis, content selection and curriculum design. In addition, we help clients manage their e-learning vendors, and we maintain an aggregated library of third-party online training classes in support of our clients.

- *Business Consulting Services.* We provide business consulting services for existing and prospective clients, such as business process mapping, guidance on industry best practices and project management services. We expect to add additional business consulting services in the future based on client demand.
- *Educational Services.* We provide product training to our clients during implementations and on an ongoing basis. We offer multiple forms of training, including custom classroom training, virtual instructor-led training, and asynchronous online training. Our training covers all aspects of administering and managing our Enterprise and Mid-Market solution. In addition, our Educational Services team offers live coaching and custom content development support for clients.

Account Services

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

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

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

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

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

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

Our Customers

As of December 31, 2014 , 2,153 clients used our Enterprise and Mid-Market solution with approximately 18.1 million registered users across 191 countries and 42 languages. Our clients represent a variety of different industries, including business services, financial services, insurance, non-profits, retail, travel, education and publishing, healthcare, media and communications, the public sector and technology. No single client accounted for 10% or more of our total revenue in 2014 , 2013 , or 2012 . Some of our significant clients across a variety of different industries who have agreed to be named include:

Automotive
BMW AG
Jaguar Land Rover Automotive plc
PSA Peugeot Citroën

Business Services
Automatic Data Processing, Inc.
Deutsche Post AG
ID Logistics Group SA

Education & Publishing
Kaplan Higher Education Corporation
Los Angeles Unified School District
Pennsylvania State University

Financial Services
BNP Paribas
Commonwealth Bank

Société Générale Group

Food & Restaurants
Anheuser-Busch InBev SA/NV
Carlsberg Group
Wendy's International, LLC

Healthcare
Carilion Clinic
Dignity Health
McKesson Corporation

Insurance
American International Group, Inc.
AXA
RSA Insurance Group plc

Media & Communications
CSC Holdings LLC
Turner Broadcasting System, Inc.
Virgin Media Limited

Non-Profits
KIPP Foundation
Save the Children Federation, Inc.
Teach for America, Inc.

Government
State of Nebraska
State of North Carolina
U.S. Department of the Treasury

Retail
Inter IKEA Systems B.V.
Unilever
Walgreen Co.

Technology
BMC Software Inc.
Flextronics International
Royal Philips Electronics

Travel
Hyatt Hotels Corporation
MGM Resorts International
Starwood Hotels & Resorts Worldwide Inc.

Technology, Operations and Development

Technology

Our Enterprise and Mid-Market solution is designed with an on-demand architecture which our clients access via a standard web browser. Our Enterprise and Mid-Market solution uses a single code base, with all of our clients running on the current version of our software. From time to time, we may maintain a marginally divergent version for a strategic client for a limited period of time, solely for our convenience. Our Enterprise and Mid-Market solution has been specifically built to deliver:

- a consistent, intuitive end-user experience to limit the need for product training and to encourage high levels of end-user adoption and engagement;
- modularity and flexibility, by allowing our clients to activate and implement virtually any combination of the features we offer;
- high levels of configurability to enable our clients to mimic their existing business processes, workflows, and organizational hierarchies within our suite;

- web services to facilitate the importing and exporting of data to and from other client systems, such as enterprise resource planning and human resource information system platforms;
- scalability to match the needs of the largest global enterprises and to meet future client growth; and
- rigorous security standards and high levels of system performance and availability demanded by our clients.

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

Our Enterprise and Mid-Market solution is deployed using a multi-tenant and multi-user architecture, which provides our enterprise clients with their own instance of a database. We employ a modularized architecture to balance the load of clients on separate sub-environments, as well as to provide a flexible method for scalability without impacting other parts of the current environment. This architecture allows us to provide the high levels of uptime required by our clients. Our existing infrastructure has been designed with sufficient capacity to meet our current and estimated near term future needs.

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

We are standardized on Microsoft .NET technologies and write the majority of our software in industry-standard software programming languages, such as C#. We use Web 2.0 technologies, such as AJAX, extensively to enhance the usability, performance, and overall user experience of our Enterprise and Mid-Market solution. Microsoft SQL Server is deployed for our relational database management system. Apart from these and other third-party components, our entire Enterprise and Mid-Market solution has been specifically built and upgraded by our in-house development team.

Operations

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

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

Research and Development

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

Our research and development expenses were $30.6 million in 2014 , $21.3 million in 2013 , and $14.9 million in 2012 .

Sales and Marketing

Sales

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

- *Strategic Accounts.* We have a strategic accounts sales team focused on sales to some of the top 150 largest multi-national corporations.
- *Enterprise.* Our enterprise sales team sells to large enterprises with 5,000 or more employees. This team is composed primarily of experienced solution sales executives, with an average tenure of 20 years in sales.
- *Mid-Market.* Our mid-market sales team sells to organizations with between 1,000 and 4,999 employees. This team is composed primarily of experienced sales individuals, with an average tenure of 16 years in sales.
- *Majors.* Our majors sales team sells to organizations with between 400 and 999 employees. This was a new team created in 2014.
- *Growth Edition.* Our Cornerstone Growth Edition sales team is targeted to clients with fewer than 400 employees.
- *Public Sector.* Our public sector sales team targets federal, state and local government, as well as K-12 and higher education institutions.
- *Healthcare.* Our healthcare sales team targets healthcare providers such as hospitals, healthcare equipment and services, pharmaceuticals, biotechnology and related life science organizations.
- *EMEA.* We have both enterprise and mid-market sales professionals based in core European markets. This team is composed primarily of experienced sales individuals, with an average tenure of 18 years in sales.
- *APAC.* We have enterprise sales professionals based in core Asia-Pacific markets including Australia, China, India, and Japan.
- *LATAM* . We have enterprise sales professionals based in core Latin and South America markets including Mexico and Brazil.

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

Marketing

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

- *Demand Generation.* Our demand generation activities include lead generation through email and direct mail campaigns, participation in industry events, securing event speaking opportunities, online marketing and search marketing.
- *Corporate Marketing.* We market to our clients by leveraging product marketing, client success stories, thought leadership content, and brand awareness advertising campaigns. Additionally, we host regional client user group meetings and we also co-market with our strategic distributors, including joint press announcements and demand generation activities.
- *Marketing Communications.* We undertake media relations, corporate communications, analyst relations activities and social media outreach.

Strategic Relationships

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

Outsourcing and Distribution Relationships

We have developed a network of outsourcing, distribution, and referral relationships to expand our reach and provide product and services sales through indirect channels. These include agreements with global vendors such as Aon Hewitt, Appirio, Inc., Automatic Data Processing, Inc., Ellucian Company L.P., and Xerox Corporation as well as regional distributors such as BSI Tecnologia in Brazil, CDP Group, Limited in China, eLearning99 in China, ISQ eLearning in Portugal, Kalleo Learning in South Africa, Logica plc in Europe, Neoris de Mexico, S.A. de C.V. in Mexico, Neospheres SAS in France, Sage Software, Inc. in North America, Xpert Learning in United Arab Emirates, T2 Optimise PTY Ltd. in Asia Pacific, Talentech Ltd. in Israel, and Xchanging HR Services Limited in the United Kingdom. We expect to continue to add distributors to build our sales presence in certain geographic and vertical markets.

Consulting and Services Relationships

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

Content and Product Relationships

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

Competition

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

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

In the applicant tracking systems segment, which the recruiting and onboarding product offerings each serve, our competitors include Oracle Corporation, and International Business Machines Corporation. We compete in this segment primarily on the basis of:

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

In the learning management systems segment, which the learning and extended enterprise product offerings each serve, our competitors include Oracle Corporation, Saba Software, Inc., SAP America, Inc., and SkillSoft Corp, which acquired SumTotal Systems, Inc. in 2014. In this segment, we compete primarily based on:

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

In the performance management systems segment, which the performance, succession and compensation product offerings each serve, our competitors include Halogen Software, Inc., Lumesse Limited, Oracle Corporation, Peoplefluent, Inc.,

and SAP America, Inc. These vendors are, like us, largely SaaS providers. We compete in this segment primarily on the basis of:

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

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

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

Government Contracts

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

The Cornerstone OnDemand Foundation

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

The Foundation focuses its efforts on the areas of education, workforce development and disaster relief. We have enlisted the help of our employees, clients and distributors to support the Foundation in its efforts. The Foundation is designed to be self-sustaining over time through a variety of ongoing funding streams, such as donations, sponsorships and distribution fees. The Foundation offers a number of programs to support the non-profit sector, including:

- *Strategic Partnership Program.* The Foundation offers non-profit clients our Enterprise and Mid-Market solution and services at a discount, in certain cases of up to 100%. We currently have direct agreements providing similar pricing with non-profit clients, including:

Education	Workforce Development	Disaster Relief
KIPP	Goodwill	Feeding America
Boys & Girls Clubs of America	United Way	Oxfam
Teach for America	Year Up	Save the Children

- *HR Pro Bono Corps.* In our experience, non-profits often lack the capacity or HR resources to invest in the training and development of their employees and volunteers. In response, the Foundation formed an HR Pro Bono Corps in order to match non-profits in need of human capital management related consulting with HR professionals from our global client base who are willing to consult on a voluntary basis.
- *NonprofitReady.org.* This program offers non-profits the unique opportunity to access online training and development at no cost. Most non-profit organizations lack the budget and the capacity to consistently and effectively invest in their

people. Through NonprofitReady.org, the Foundation provides relevant content including videos, webinars, whitepapers, and e-learning courses to organizations domestically and abroad. Non-profit professionals have unlimited access to more than 200 resources customized for the nonprofit professional.

- *DisasterReady.org.* In addition to its support of individual non-profits, the Foundation seeks to improve the sector at large by incubating and implementing strategic initiatives that address a critical market need. In 2013, the Foundation launched DisasterReady.org, a free online training website specifically designed by experts in training, capacity building and humanitarian assistance to help prepare aid workers for the demands they face in the field. Informed and supported by prominent aid agencies such as Save the Children, IRC, UNHCR, CARE, IFRC, and World Vision, DisasterReady.org offers hundreds of cutting edge e-learning courses, live and recorded webinars on key humanitarian issues, and related training resources focused on disaster preparedness and response.
- *Impact Grant Program.* The Impact Grant program allows nonprofit organizations to achieve substantial social impact by using learning technology to expand the reach and scale of their educational programs and services. Through the Impact Grant program, the Foundation selects four nonprofit organizations annually from around the globe to each receive a two-year grant equal to $1.0 million in value. Grantees are awarded unlimited usage of the learning product offering as well as access to a range of pro bono business consulting services. Using the learning product offering, organizations can effectively and efficiently scale their programs by automating the delivery of their training to clients, volunteers, partner agencies, and anyone else at any time. Grantees include organizations such as Project HOPE, The Ounce, and Darkness to Light.

Proprietary Rights

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

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

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

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

Seasonality

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

Business Segment and Geographical Information

We operate in a single operating segment. For geographic financial information, see Note 13 to our consolidated financial statements, which is incorporated herein by reference.

Working Capital Practices

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

Employees

At December 31, 2014 , we had 1,361 employees, which is a 38% increase from 987 employees at December 31, 2013 . None of our employees are covered by a collective bargaining agreement, and we have never experienced a strike or similar work stoppage. We consider our relations with our employees to be strong. Internally, we strive to empower our people by using our Enterprise and Mid-Market solution to on-board, develop, connect, align, assess, retain and promote our own employees.

Additional Information

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

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

Item 1A. *Risk Factors*

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

Risks Related to Our Business and Industry

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

We have incurred losses since our inception. We experienced net losses of $64.9 million , $40.4 million , and $31.4 million in 2014 , 2013 and 2012 , respectively. At December 31, 2014 , our accumulated deficit was $301.4 million and total stockholders' equity was $35.5 million . We expect to continue to incur operating losses as a result of expenses associated with the continued development and expansion of our business. Our expenses include among others, sales and marketing, research and development, consulting and support services and other costs relating to the development, marketing and sale and service of our solutions that may not generate revenue until later periods, if at all. Any failure to increase revenue or manage our cost structure as we implement initiatives to grow our business could prevent us from achieving or sustaining profitability. In addition, our ability to achieve profitability is subject to a number of the risks and uncertainties discussed below, many of which are beyond our control. We cannot be certain that we will be able to achieve or sustain profitability on a quarterly or annual basis.

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

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

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

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

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

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

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

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

- changes in billing cycles and the size of advance payments relative to overall contract value in client agreements;
- the extent to which new clients are attracted to our solutions to satisfy their talent management needs;
- the timing and rate at which we sign agreements with new clients;
- our access to service providers when we outsource client service projects and our ability to manage the quality and completion of the related client implementations;
- the timing and duration of our client implementations, which is often outside of our direct control, and our ability to provide resources for client implementations and consulting projects;
- the extent to which we retain existing clients and satisfy their requirements;
- the extent to which existing clients renew their subscriptions to our solutions and the timing of those renewals;
- the extent to which existing clients purchase or discontinue the use of additional solutions and add or decrease the number of users;
- the extent to which our clients request enhancements to underlying features and functionality of our solutions and the timing for us to deliver the enhancements to our clients;

- the addition or loss of large clients, including through acquisitions or consolidations;
- the number and size of new clients, as well as the number and size of renewal clients in a particular period;
- the mix of clients between small, mid-sized and large organizations;
- changes in our pricing policies or those of our competitors;
- seasonal factors affecting demand for our solutions or potential clients' purchasing decisions;
- the financial condition and creditworthiness of our clients;
- the amount and timing of operating expenses, including those related to the maintenance and expansion of our business, operations and infrastructure;
- the timing and success of new product and service introductions by us;
- the timing of expenses related to the development of new products and technologies, including enhancements to our solutions;
- our ability to exploit Big Data to drive increased demand for our products;
- continued strong demand for talent management in the U.S. and Europe;
- our ability to successfully integrate our operations with those of recently acquired privately-held companies;
- the timing and success of current and new competitive products and services by our competitors;
- other changes in the competitive dynamics of our industry, including consolidation among competitors, clients or strategic partners;
- our ability to manage our existing business and future growth, including in terms of additional headcount, additional clients, incremental users and new geographic regions;
- expenses related to our network and data centers and the expansion of such networks and data centers;
- the effects of, and expenses associated with, acquisitions of third-party technologies or businesses and any potential future charges for impairment of goodwill resulting from those acquisitions;
- equity issuances, including as consideration in acquisitions or due to the conversion of our outstanding convertible notes;
- general economic, industry and market conditions; and
- various factors related to disruptions in our SaaS hosting network infrastructure, defects in our solutions, privacy and data security, and exchange rate fluctuations, each of which is described elsewhere in these risk factors.

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

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

Our forecasts are subject to significant uncertainty and are based on assumptions and estimates which may not prove to be accurate. These assumptions and estimates include the timing and value of agreements with our customers, variability in the service delivery periods for our customers, and expected growth in our market. Our assumptions and estimates related to our business growth, including the performance of our core business and emerging businesses and the demand for our solutions in the U.S., Europe and other regions, may prove to be inaccurate. Even if the markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

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

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

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

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

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

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

We face competition from paper-based processes and desktop software tools. We also face competition from custom-built software that is designed to support the needs of a single organization, as well as from third-party talent and human resource application providers. These software vendors include, without limitation, Halogen Software, Inc., International Business Machines Corporation, Lumesse AS, Oracle Corporation, Peoplefluent, Inc., Saba Software, Inc., SAP America, Inc., and Skillsoft Corp, which acquired SumTotal Systems, Inc. in 2014. In addition, some of the parties with which we maintain business alliances offer or may offer products or services that compete with our products or services.

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

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

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

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

We have experienced, and may continue to experience, rapid growth and organizational change, which has placed, and may continue to place, significant demands on our management, operational and financial resources. For example, our headcount has grown from 987 employees on December 31, 2013 to 1,361 employees on December 31, 2014 . In addition, we have established offices in Australia, Brazil, France, Germany, Hong Kong, India, Israel, Japan, Netherlands, New Zealand, Spain, Sweden and the United Kingdom. We may continue to expand our international operations into other countries in the future, either organically or through acquisitions. We have also experienced significant growth in the number of users, transactions and data that our SaaS hosting infrastructure supports. Finally, our organizational structure is becoming more complex as we improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to client success that has been central to our growth so far. If we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our solution may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract clients.

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

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

In April 2012, we acquired Sonar Limited, a SaaS talent management solution provider serving small businesses, and in November 2014, we acquired Evolv Inc., a machine learning and data science platform provider. In the future, we may seek to acquire or invest in other businesses, products or technologies that we believe could complement or expand our existing solutions, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are ultimately consummated.

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

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

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

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

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

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. Our auditors also need to audit the effectiveness of our internal control over financial reporting. These assessments need to include disclosure of any material weaknesses in our internal control over financial reporting.

We have and continue to incur significant costs assessing our system of internal control over financial reporting and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may discover, and may not be able to remediate, future significant deficiencies or material weaknesses, or we may be unable to complete our evaluation, testing or any required remediation in a timely fashion. Failure of our internal control over financial reporting to be effective could cause our financial reporting to be inaccurate, incomplete or delayed. Moreover, even if there is no inaccuracy, incompletion or delay of reporting results, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert, and our auditors will be unable to affirm, that our internal control is effective, in which case investors may lose confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our common stock.

Our systems collect, access, use and store personal and other client proprietary information. As a result, we are subject to security risks and are required to invest significant resources to prevent or correct problems caused by security breaches. If a security breach occurs, our reputation could be harmed, our business may suffer, and we could incur significant liability.

Our talent management solutions involve the storage and transmission of clients' proprietary and confidential information over the Internet (including public networks), and security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of this information, damage to our reputation, early termination of our contracts, litigation, regulatory investigations or other liabilities. In addition, errors in the storage or transmission of such information could compromise the security of that information. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to client data, our reputation will be damaged, our business may suffer and we could incur significant liability. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of our security systems and the data stored in these systems. Because there is a time lag associated with developing adequate protections against such new developments and techniques, unauthorized access or sabotage of our systems and the information processed in connection with our business may result. If an actual or perceived security breach occurs, the market perception of our security measures could be harmed and we could lose sales and clients. Any violations of privacy or information security could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely impact our operating results and financial condition, including our ability to make required reporting and disclosures as a public company. Moreover, if a high-profile security breach occurs with respect to another SaaS provider, our clients and potential clients may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing clients or attract new ones.

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

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

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

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

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

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

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

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

Defects in our solutions could affect our reputation, result in significant costs to us, and impair our ability to sell our solutions and related services.

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

- lost or delayed market acceptance and sales of our solutions;
- early termination of client agreements or loss of clients;
- credits or refunds to clients;
- product liability suits against us;
- diversion of development resources;
- injury to our reputation; and
- increased maintenance and warranty costs.

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

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

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

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

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

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

Failure to effectively expand our direct sales teams and develop and expand our indirect sales channel will impede our growth.

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

If we fail to retain key employees and recruit qualified technical and sales personnel, our business could be harmed.

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

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

Clients have the option of implementing our solutions themselves or relying on us to do so on their behalf. In cases where we are asked to deploy a solution for a client, we need to have a substantial understanding of such client's business so that we can configure the solution in a manner that complements its existing business processes and integrates the solution into its existing systems. It may be difficult for us to manage the timeliness of these deployments and the allocation of personnel and

resources by us or our clients. In certain situations, we also work with third-party service providers in the deployment of our solutions, and we may experience difficulties managing such third parties. Failure to successfully manage client deployments by us or our third-party service providers could harm our reputation and cause us to lose existing clients, face potential client disputes or limit the rate at which new clients purchase our solutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

We currently have a limited number of international offices and are expanding our international operations. Additionally, we do not have substantial experience in all international markets and may not achieve the results that we expect.

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

- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing labor regulations;
- regulations relating to data security and the unauthorized use of, or access to, commercial and personal information;
- potential penalties or other adverse consequences for violations of anti-corruption, anti-bribery and other similar laws and regulations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act.
- greater difficulty in supporting and localizing our products;
- changes in a specific country's or region's political or economic conditions;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, controls, policies, benefits and compliance programs;
- limited or unfavorable intellectual property protection; and
- restrictions on repatriation of earnings.

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

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

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

We face risks associated with our sales to governmental entities.

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

- Selling to governmental entities can be more competitive, expensive and time-consuming than selling to private entities;
- Governmental entities may have significant leverage in negotiations, thereby enabling such entities to demand contract terms that differ from what we generally agree to in our standard agreements, including, for example, most favored nation clauses and terms allowing contract termination for convenience;
- Government demand and payment for our solutions may be influenced by public sector budgetary cycles and funding authorizations, with funding reductions or delays having an adverse impact on public sector demand for our solutions; and
- Government contracts are generally subject to audits and investigations, which we have no experience with, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

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

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

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

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

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

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

We intend to continue to make investments to support our business growth and may seek additional funds to respond to business challenges, including the need to develop new features or enhance our existing solutions, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in additional equity or debt financings to secure additional funds. If we raise additional funds through issuances of equity or debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired.

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

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

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

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

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

In addition, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

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

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our licensed products may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying and use of our products and proprietary information may increase. We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with

whom we have strategic relationships and business alliances. These agreements may not be effective in controlling access to and distribution of our products and proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. If we fail to secure, protect and enforce our intellectual property rights, we may lose valuable assets, generate reduced revenue and incur costly litigation to protect our rights, which could seriously harm our brand and adversely impact our business.

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

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

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

Our agreements with clients and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our products, services, or other contractual obligations. The term of these indemnity provisions generally survives termination or expiration of the applicable agreement. Large indemnity payments could harm our business, operating results and financial condition. From time to time, we are requested by clients to indemnify them for breach of confidentiality with respect to personal data. Although we normally do not agree to, or contractually limit our liability with respect to, such requests, the existence of such a dispute with a client may have adverse effects on our client relationships and reputation.

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

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

We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in full compliance with applicable laws.

Our solutions are subject to export controls, including the Commerce Department's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls, and exports of our solutions must be made in compliance with these laws. If we fail to comply with these U.S. export control laws and import laws, including U.S. Customs regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers.

In addition, if our distributors fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming and is not guaranteed, and may result in the delay or loss of sales opportunities. Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being shipped or provided to U.S. sanctions targets, our solutions and services could be shipped to those targets or provided by our distributors despite such precautions. Any such shipment could have negative consequences, including government investigations, penalties and reputational harm. In addition, various countries regulate the import of certain encryption technology, including through import permitting or licensing requirements, and have enacted laws that could limit our ability to distribute our solutions or could limit our clients' ability to implement our solutions in those countries. Changes to our solutions or changes in export and import regulations may create delays in the introduction and sale of our solutions in international markets, prevent our clients with international operations from deploying our solutions or, in some cases, prevent the export or import of our solutions to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions, or in our decreased ability to export or sell our solutions to existing or potential clients with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would likely adversely affect our business, financial condition and operating results.

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

We currently have foreign sales denominated in Australian Dollars, Brazilian Reals, Canadian Dollars, Euros, Great British Pounds, Indian Rupees, Japanese Yen, New Zealand Dollars, Singapore Dollars, and South African Rand and may in the future have sales denominated in the currencies of additional countries. In addition, we incur a portion of our operating expenses in Great British Pounds and Euros and, to a much lesser extent, in Australian Dollars, Brazilian Reals, Canadian Dollars, Chinese Yuan, Danish Krone, Hong Kong Dollars, Indian Rupees, Israeli New Shekels, Japanese Yen, New Zealand Dollars, Norwegian Kroner, Polish Zloty, Swedish Krona and Swiss Franc. Further, our overseas subsidiaries' results are also impacted by exchange rates affecting the carrying value of U.S. Dollar denominated intercompany loans with us. Fluctuations in the exchange rates of these foreign currencies negatively impact our business, financial condition and operating results. We have not previously engaged in foreign currency hedging. If we decide to hedge our foreign currency exposure, we may not be able to completely eliminate the impact of fluctuations in the exchange rates.

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

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

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

At December 31, 2014 , we had $166.6 million in cash and cash equivalents and $119.2 million in short-term and long-term investments in marketable securities, consisting of corporate bonds, money market funds backed by United States Treasury Bills, U.S. treasury securities and agency securities. Although we follow an established investment policy and set of guidelines to manage our investment portfolio, our investments are subject to general credit, liquidity, counterparty, market and interest rate risks, which have been exacerbated by the recent financial and credit crisis, rising bankruptcy filings in the United States, and the ongoing debt-ceiling debate.

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

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

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

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

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

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

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

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

Risks Related to Tax Issues

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

As a multinational organization, we are subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and operating results. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and our operating results. If we are selected for future examinations that uncover incorrect tax positions, we could be subject to additional taxes, interest, and penalties.

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

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

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

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

Risks Related to Ownership of our Common Stock

The trading price of our common stock may be volatile.

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

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

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been initiated against these companies. This litigation, if initiated against us, could result in substantial costs and a diversion of our management's attention and resources.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Our principal offices are located in Santa Monica, California, where we occupy approximately 108,000 square feet of office space under operating leases that expire in January 2019. We have additional established offices in Amsterdam, Auckland, Düsseldorf, Hong Kong, London, Madrid, Mumbai, Munich, Paris, San Francisco, São Paulo, Stockholm, Sunnyvale, Sydney, Tel Aviv, and Tokyo to support our international operations. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate planned expansion of our operations. Our foreign subsidiaries lease office space for their operations, including their local sales and professional services personnel.

Item 3. *Legal Proceedings*

From time to time, we are involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of

management resources and other factors. In addition, it is possible that an unfavorable resolution of one or more such proceedings could in the future materially and adversely affect our financial position, results of operations or cash flows in a particular period.

Item 4. *Mine Safety Disclosure*

Not applicable.

PART II

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

Market for Our Common Stock and Related Stockholder Matters

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

	Fiscal 2014		Fiscal 2013	
	High	Low	High	Low
First Quarter	$ 60.86	$ 45.96	$ 35.29	$ 29.84
Second Quarter	49.65	34.59	45.67	31.35
Third Quarter	46.20	34.41	54.60	43.90
Fourth Quarter	36.82	27.55	53.31	45.55

Holders of Record

As of January 31, 2014 there were 30 holders of record of our common stock. Because many of our shares of common stock are held of record by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by such record holders.

Dividend Policy

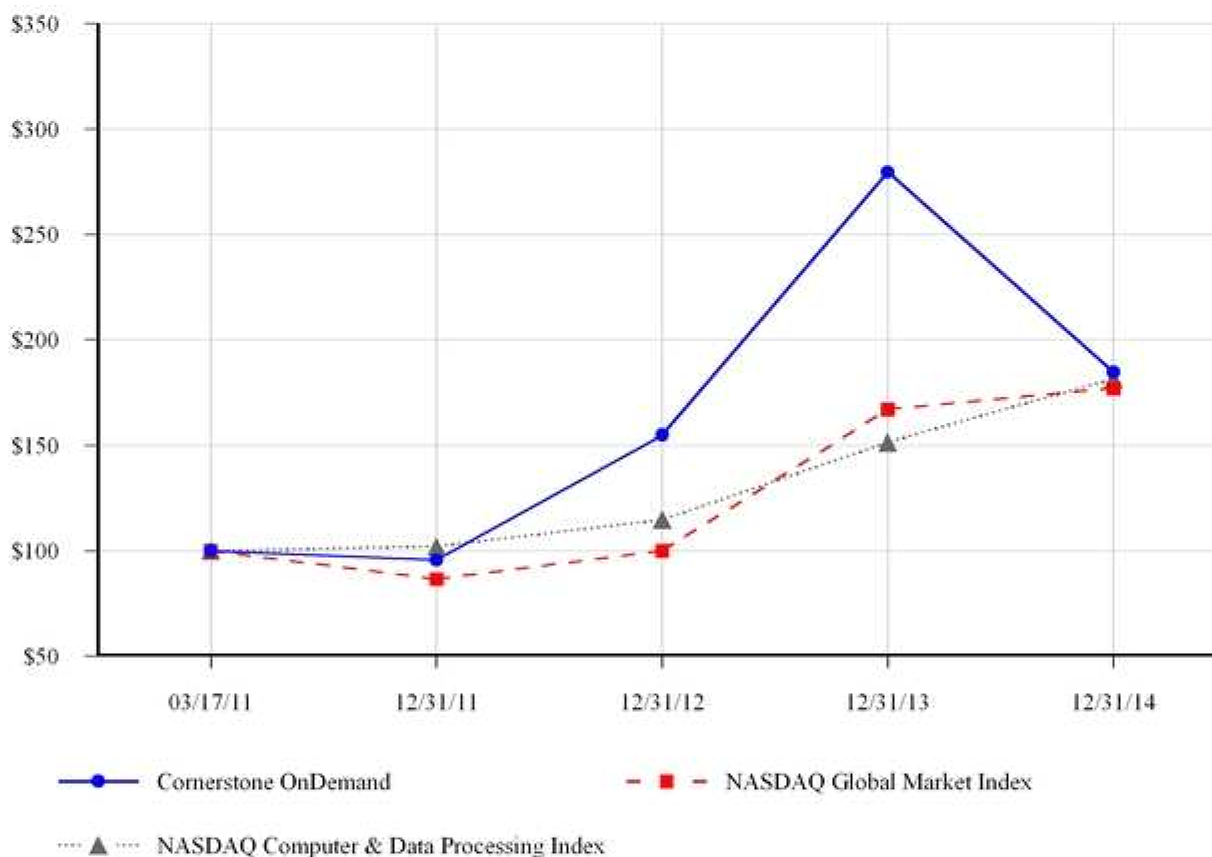
We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial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

STOCK PRICE PERFORMANCE GRAPH

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

The following graph compares (i) the cumulative total stockholder return on our common stock from March 17, 2011 through December 31, 2014 with (ii) the cumulative total return of the NASDAQ Global Market Index and (iii) the NASDAQ Computer & Data Processing Index over the same period, assuming the investment of $100 in our common stock and in both of the other indices on March 17, 2011 and the reinvestment of all dividends. As discussed above, we have never declared or paid a cash dividend on our common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future.

COMPARISON OF CUMULATIVE TOTAL RETURN OF CORNERSTONE ONDEMAND*



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

	March 17, 2011	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014
Cornerstone OnDemand	$ 100.00	$ 95.65	$ 154.85	$ 279.55	$ 184.58
NASDAQ Global Market Index	$ 100.00	$ 86.60	$ 100.04	$ 166.92	$ 176.96
NASDAQ Computer & Data Processing Index	$ 100.00	$ 101.97	$ 114.69	$ 151.33	$ 181.41

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

Equity Compensation Plan Information

The information required by this item will be included under the caption "Equity Compensation and Plan Information" in our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 , and is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. ***Selected Financial Data***

The statement of operations data for the three years ended December 31, 2014 , 2013 , and 2012 and the balance sheet data at December 31, 2014 and 2013 , respectively, are derived from, and qualified by reference to, our audited financial statements included elsewhere in this Annual Report on Form 10-K. The statements of operations data for the two years ended December 31, 2011 and 2010 and the balance sheet data at December 31, 2012, 2011 and 2010, respectively, are derived from our audited financial statements not included in this Annual Report on Form 10-K.

The selected consolidated financial data below are not necessarily indicative of future performance and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Consolidated statements of operations data:					
Gross revenue [(1)]	$ 263,568	$ 185,129	$ 117,914	$ 75,522	$ 46,608
Common stock warrant charge [(1)]	—	—	—	(2,500)	(2,877)
Net revenue	263,568	185,129	117,914	73,022	43,731
Cost of revenue	77,684	53,548	34,591	21,285	14,280
Gross profit	185,884	131,581	83,323	51,737	29,451
Operating expenses:					
Sales and marketing	162,552	109,737	73,563	45,773	28,134
Research and development	30,618	21,260	14,886	10,149	5,602
General and administrative	41,802	33,572	25,912	15,122	8,555
Amortization of certain acquired intangible assets	828	1,004	739	—	—
Total operating expenses	235,800	165,573	115,100	71,044	42,291
Loss from operations	(49,916)	(33,992)	(31,777)	(19,307)	(12,840)
Other income (expense):					
Interest income (expense) and other income (expense), net	(14,128)	(6,562)	(402)	(1,853)	(1,320)
Change in fair value of preferred stock warrant liabilities [(2)]	—	—	—	(42,559)	(34,073)
Loss before provision for income taxes	(64,044)	(40,554)	(32,179)	(63,719)	(48,233)
Income tax benefit (provision)	(855)	128	789	(181)	(137)
Net loss	$ (64,899)	$ (40,426)	$ (31,390)	$ (63,900)	$ (48,370)
Accretion of redeemable preferred stock	—	—	—	(5,208)	(8,235)
Net loss attributable to common stockholders	$ (64,899)	$ (40,426)	$ (31,390)	$ (69,108)	$ (56,605)
Net loss per share attributable to common stockholders, basic and diluted [(3)]	$ (1.22)	$ (0.79)	$ (0.63)	$ (1.74)	$ (6.15)
Weighted average common shares outstanding, basic and diluted	53,267	51,427	49,929	39,824	9,206

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

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

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

	At December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Consolidated balance sheet data:					
Cash and cash equivalents	$ 166,557	$ 109,583	$ 76,442	$ 85,409	$ 7,067
Property and equipment, net	21,424	14,436	7,947	3,663	3,976
Working capital, excluding deferred revenue	356,553	369,499	115,294	112,094	18,889
Total assets	505,655	451,355	171,834	135,362	42,894
Debt, current portion	351	519	916	265	14
Deferred revenue, current and non-current portion	191,336	138,822	92,252	55,880	33,818
Capital lease obligations, net of current portion	—	218	1,227	1,056	1,523
Debt, net of current portion	225,094	218,357	1,836	409	8,705
Preferred stock warrant liabilities	—	—	—	—	39,756
Convertible preferred stock	—	—	—	—	42,089
Total stockholders' equity (deficit)	35,502	52,895	46,648	62,460	(97,231)

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

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

Overview

We are a leading global provider of talent management solutions delivered as Software-as-a-Service, or SaaS. We enable organizations to meet the challenges they face in recruiting, developing and evaluating their workforces by empowering their people and maximizing the productivity of their human capital.

Our Enterprise and Mid-Market solution is a comprehensive and unified cloud-based suite consisting of product offerings to help organizations manage their recruiting, onboarding, learning, performance, succession, compensation and enterprise social collaboration processes. We also offer Enterprise and Mid-Market organizations an additional product, Extended Enterprise, to manage training for their external networks of partners, suppliers, resellers, distributors and customers. To complement our product suite, we offer a number of cross-product tools for analytics and reporting, employee profile management and e-learning content aggregation. We also provide consulting services for configuration and training as well as third-party e-learning content for use with our solution. After the initial purchase of our solution, we continue to market and sell to our existing clients, who may renew their subscriptions, add additional products, broaden the deployment of the solution across their organizations and increase usage of the solution over time.

In addition to our Enterprise and Mid-Market solution, we also offer Cornerstone for Salesforce and Cornerstone Growth Edition, formerly known as Cornerstone for Small Business. Cornerstone for Salesforce is a cloud-based learning solution developed natively on the Salesforce.com platform. Cornerstone for Salesforce allows organizations to provide seamless access to sales enablement and just-in-time training embedded within Salesforce. Cornerstone Growth Edition is a cloud-based talent management solution with learning and performance product offerings targeted to organizations with fewer than 400 employees. We currently do not include the number of clients and users of our Cornerstone for Salesforce and Cornerstone Growth Edition solutions in our client and user count metrics as we believe the client and user count metrics for our Enterprise and Mid-Market solution give a better indication of our overall performance.

We currently have over 2,100 clients who use our Enterprise and Mid-Market solution to empower approximately 18.1 million users across 191 countries in 42 different languages. For 2014 and 2013 , no single client or distributor accounted for more than 10% of our revenue. The number of clients using our Enterprise and Mid-Market solution has grown from 105 at December 31, 2007 to 1,237 at December 31, 2012 to 1,631 at December 31, 2013 and to 2,153 at December 31, 2014 .

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

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

We generally recognize revenue from subscriptions ratably over the term of the client agreement and revenue from consulting services as the services are performed. In certain instances, our clients request enhancements to the underlying features and functionality of our Enterprise and Mid-Market solution, and in these instances, revenue from subscriptions is recognized over the remaining term of the agreement once the additional features are delivered to the client. We generally invoice our clients a portion of the annual subscription fees upfront for multi-year subscriptions and upfront for consulting services. For amounts not invoiced in advance for multi-year subscriptions or consulting services, we invoice under various terms over the subscription and service periods. We record amounts invoiced for annual subscription periods that have not occurred or services that have not been performed as deferred revenue on our balance sheet. With the growth in the number of clients, our revenue has grown to $263.6 million for the year ended December 31, 2014 from $185.1 million for the same period in 2013 .

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

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

We have focused on growing our business to pursue what we believe is a significant market opportunity, and we plan to continue to invest in building for growth. As a result, we expect our cost of revenue and operating expenses to increase in future periods. Sales and marketing expenses are expected to increase, as we continue to expand our direct sales teams, increase our marketing activities, and grow our international operations. Research and development expenses are expected to increase as we continue to improve the existing functionality for our solutions. We also believe that we must invest in maintaining a high degree of client service and support that is critical for our continued success. We plan to continue our policy of implementing best practices across our organization, expanding our technical operations and investing in our network infrastructure and services capabilities in order to support continued future growth. We also

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

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

- our ability to attract new clients;
- the timing and rate at which we enter into agreements for our solutions with new clients;
- the timing and duration of our client implementations, which is often outside of our direct control, and our ability to provide resources for client implementations and consulting projects;
- the extent to which our existing clients renew their subscriptions for our solutions and the timing of those renewals;
- the extent to which our existing clients purchase additional products or add incremental users;
- the extent to which our clients request enhancements to underlying features and functionality of our solutions and the timing for us to deliver the enhancements to our clients;
- changes in the mix of our sales between new and existing clients;
- changes to the proportion of our client base that is comprised of enterprise or mid-sized organizations;
- seasonal factors affecting the demand for our solutions;
- our ability to manage growth, including in terms of new clients, additional users, additional headcount and new geographies;
- our ability to expand our enterprise and mid-market sales teams;
- our ability to maintain stable and consistent quota attainment rates;
- our ability to exploit Big Data to drive increased demand for our products;
- continued strong demand for talent management in the U.S. and Europe;
- the timing and success of solutions offered by our competitors;
- changes in our pricing policies and those of our competitors;
- our ability to successfully integrate our operations with those of recently acquired privately-held companies; and
- general economic and market conditions including fluctuations in foreign exchange rates.

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

Metrics

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

- *Revenue.* We generally recognize subscription revenue over the contract period, and as a result of our revenue recognition policy and the seasonality of when we enter into new client agreements, revenue from client agreements signed in the current period may not be fully reflected in the current period. As a result, revenue increases period over period are primarily from contracts that existed prior to the beginning of that period.
- *Bookings* . Under our revenue recognition policy, we generally recognize subscription revenue from our client agreements ratably over the terms of those agreements. For this reason, the major portion of our revenue for a period will be from client agreements signed in prior periods rather than from new business activity during the current period. In order to assess our business performance with a metric that more fully reflects current period business activity, we track bookings, which is a non-GAAP financial measure we define as the sum of revenue and the change in the deferred revenue balance for the period. We include changes in the deferred revenue balance to calculate bookings so it better reflects new business activity in the period as evidenced by prepayments or billings under our billing policies arising from acquisition of new clients, sales of additional products to existing clients, the addition of incremental users by existing clients and client renewals. Bookings are affected by our billing terms, and any changes in those billing terms may shift bookings between periods. Due to the seasonality of our sales, bookings growth is inconsistent from quarter to quarter throughout a calendar year. For a reconciliation of bookings to revenue, please see " *Results of Operations – Revenue and Metrics* ."

- *Annual dollar retention rate* . We define annual dollar retention rate as the implied monthly recurring revenue under client agreements at the end of a fiscal year, divided by the implied monthly recurring revenue, for that same client base, at the end of the prior fiscal year and excluding implied monthly recurring revenue from clients of our Cornerstone for Salesforce and Cornerstone Growth Edition solutions. This ratio does not reflect implied monthly recurring revenue for new clients added between the end of the prior fiscal year and the end of the current fiscal year. Beginning in 2013, incremental sales up to and not exceeding the original renewal amount to the existing client base are included in this ratio. We define implied monthly recurring revenue as the total amount of minimum recurring revenue to which we have a contractual right under each of our client agreements over the entire term of the agreement, but excluding non-recurring support, consulting and maintenance fees, divided by the number of months in the term of the agreement. Implied monthly recurring revenue is substantially comprised of subscriptions to our Enterprise and Mid-Market solution. We believe that our annual dollar retention rate is an important metric to measure the long-term value of client agreements and our ability to retain our clients.
- *Number of clients* . We believe that our ability to expand our client base is an indicator of our market penetration and the growth of our business as we continue to invest in our direct sales teams and distributors. Our client count includes contracted clients for our Enterprise and Mid-Market solution as of the end of the period and excludes clients of our Cornerstone for Salesforce and Cornerstone Growth Edition solutions.
- *Number of users.* Since our clients generally pay fees based on the number of users of our solutions within their organizations, we believe the total number of users is an indicator of the growth of our business. Our user count includes active users for our Enterprise and Mid-Market solution and excludes users of our Cornerstone for Salesforce and Cornerstone Growth Edition solutions.

Key Components of Our Results of Operations

Sources of Revenue and Revenue Recognition

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

- *Subscriptions to Our Solutions.* Clients pay subscription fees for access to our solutions for a specified period of time, typically three years for our Enterprise and Mid-Market solution and annual or three-year periods for our Cornerstone for Salesforce and Cornerstone Growth Edition solutions. Fees are based on a number of factors, including the number of users having access to a solution. We generally recognize revenue from subscriptions ratably over the term of the agreements.
- *Consulting Services.* We offer our clients assistance in implementing our solutions and optimizing their use. Consulting services include application configuration, system integration, business process re-engineering, change management and training services. Services are billed either on a time-and-material or a fixed-fee basis. These services are generally purchased as part of a subscription arrangement and are typically performed within the first several months of the arrangement. Clients may also purchase consulting services at any other time. Our consulting services are performed by us directly or by third-party service providers we engage. Clients may also choose to perform these services themselves or engage their own third-party service providers. We generally recognize revenue from fixed fee consulting services using the proportional performance method over the period the services are performed and as time is incurred for time-and-material arrangements.
- *E-learning Content.* We resell third-party on-line training content, which we refer to as e-learning content, to our clients. We also host other e-learning content provided by our clients. We generally recognize revenue from the resale of e-learning content as it is delivered and recognize revenue from hosting as the hosting services are provided.

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

Cost of Revenue

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

Operating Expenses

Our operating expenses are as follows:

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

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

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

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

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

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

Other Income (Expense)

- *Interest Income* . Interest income consists primarily of interest income from investment securities partially offset by amortization of investment premiums. We expect interest income to increase as a result of our investments in marketable securities, which include corporate bonds, agency bonds and U.S. treasury securities, in the year ended December 31, 2014 and 2013.

- *Interest Expense.* Interest expense consists primarily of interest expense from our promissory notes, convertible debt, accretion of debt discount, amortization of debt issuance costs and capital lease payments. We expect interest expense to increase primarily as a result of the convertible debt and related interest.

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

Income Tax (Provision) Benefit

The income tax provision is related to foreign and certain state income taxes. As we have recorded a full valuation allowance against our United States, United Kingdom, New Zealand, Hong Kong and Brazil net deferred tax assets, we have not recorded a provision for United States, United Kingdom, New Zealand, Hong Kong and Brazil income taxes. Certain foreign subsidiaries and branches of ours provide intercompany services and are compensated on a cost-plus basis, and therefore, have incurred liabilities for foreign income taxes in their respective jurisdictions.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition and Deferred Revenue

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

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

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

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

We are not generally able to determine VSOE or TPE for our deliverables because we sell them separately and within a sufficiently narrow price range only infrequently, and because we have determined that there are no third-party offerings reasonably comparable to our solutions. Accordingly, we determine the selling prices of subscriptions to our solutions, consulting services and e-learning content based on BESP. In determining BESP for subscriptions to our solutions, we consider the size of client arrangements, as measured by number of users; whether the sales were made by our direct sales team or distributors; and whether the sales are to a domestic or an international client. We group sales of our solutions into multiple categories based on these criteria. We then compute an average selling price for each group. This average selling price represents our BESP for that type of client arrangement. For consulting services, we analyze both bundled arrangements that include subscriptions to our solutions and consulting services, as well as standalone purchases of different types of consulting services made subsequent to the original subscription. For these consulting services arrangements, we then examine the actual rate per hour we charge or, for fixed fee arrangements, the implied average rate per hour based on the fixed fee divided by the estimated hours to complete the service. The BESP is then the product of this average rate per hour and our estimate of the hours needed to complete the services. For e-learning content, we estimate BESP by reviewing fees for content in order to establish an average annual fee per user that reflects the cost we incur to acquire the related content from third-party providers. Additionally, we estimate BESP by reviewing fees for content-hosting by reviewing the selling price of gigabytes sold in order to establish a fee on a per user or bandwidth basis.

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

- *Nature of the deliverables.* For example, in categorizing our subscriptions into meaningful groupings for determining BESP, we consider the number and type of products the client purchased. For consulting services, we consider the type of consulting service and the estimated hours required to complete the service or average selling price for fixed fee services based on our historical experience.
- *Location of our clients.* Our pricing is different for domestic and international clients, and therefore in determining BESP of subscriptions to our solutions, we evaluate domestic arrangements separately from international arrangements.
- *Market conditions and competitive landscape for the sale.* Our pricing and discounting varies based on the economic environment and competition. We consider these factors in determining the grouping of comparable services and the periods over which we compare arrangements to compute the BESP.
- *Internal costs.* Our pricing for consulting services and e-learning content considers our internal costs to provide the consulting services and the third-party purchase costs of e-learning content.
- *Size of the arrangement.* Discounting generally increases as the relative size of an arrangement increases, and we take this into consideration in the grouping of our clients to determine BESP. Our discounting for multiple-deliverable arrangements varies based on the extent and type of the consulting services and content included with the subscriptions in the arrangement.

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

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

In a limited number of cases, the client’s intended use of a solution requires enhancements to its underlying features and functionality. In some of these cases, revenue is recognized as one unit of accounting on a straight-line basis from the point at which the enhancements have been made to the solution through the remaining term of the agreement. In other cases where the enhancement is not required for the client’s intended use, revenue is not recognized as one unit of accounting rather the allocated value of the enhancement is recognized on a straight-line basis once the enhancement has been made.

For arrangements in which we resell third-party e-learning content to our clients or host client or third-party e-learning content provided by the client, we recognize revenue in accordance with accounting guidance as to when to report gross revenue as a principal and when to report net revenue as an agent. We recognize e-learning content revenue in the gross amount that we invoice our client when: (i) we are the primary obligor, (ii) we have latitude to establish the

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

Commission Expense

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

Stock-based Compensation

We account for stock-based awards granted to employees and directors by recording compensation expense based on the awards' estimated fair values. We grant stock options and restricted stock units that vest over time based on the continuing employment of the employee, as well as restricted stock units that vest based on meeting certain performance targets. We expect that our expense related to stock-based compensation will increase over time.

We estimate the fair value of our stock-based awards as of the date of grant using the Black-Scholes option-pricing model. Determining the fair value of stock-based awards under this model requires judgment, including estimating (i) the value per share of our common stock, (ii) volatility, (iii) the term of the awards, (iv) the dividend yield and (v) the risk-free interest rate. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, based on management's judgment and subjective future expectations. These estimates involve inherent uncertainties. If any of the assumptions used in the model change significantly, stock-based compensation recorded for future awards may differ materially from that recorded for awards granted previously.

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

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

In addition, we issued performance-based restricted stock units that are dependent on performance goals or market conditions, established by the Board of Directors, for a predetermined period. The fair value of the performance-based awards are determined using a Monte-Carlo simulation model that factors in the probability of the award vesting. For performance-based awards, the fair value is not determined until all of the terms and conditions are established.

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

	Year Ended December 31,		
	2014	2013	2012
Stock options granted (in thousands)	2,209	2,394	2,553
Weighted-average exercise price	$ 44.16	$ 43.32	$ 22.09
Weighted-average grant date fair value per share of stock options granted	$ 21.72	$ 21.52	$ 11.12
Weighted-average Black-Scholes model assumptions:			
Estimated fair value of common stock	$ 44.16	$ 43.32	$ 22.09
Estimated volatility	49.9%	51.5%	53.9%
Estimated dividend yield	—	—	—
Expected term (years)	6.0	6.0	5.8
Risk-free rate	1.9%	1.5%	1.0%

As of December 31, 2014 , we had approximately $69.1 million of unrecognized employee related stock-based compensation, net of estimated forfeitures, relating to stock options that we expect to recognize over a weighted-average period of approximately 2.8 years . Unrecognized compensation expense related to nonvested restricted stock units was $22.0 million at December 31, 2014 , which is expected to be recognized as expense over the weighted-average period of 3.3 years. Additionally, during 2014, we granted certain performance based restricted stock units. Unrecognized compensation expense related to performance based options and units was $1.5 million at December 31, 2014 , which is expected to be recognized as expense over the weighted-average period of 2.5 years. The amount of compensation cost relating to performance awards may change in future periods to the extent that another target level becomes probable of achievement.

Stock-based compensation expense is expected to increase in 2015 compared to 2014 as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to continue to attract and retain employees.

Allowance for Doubtful Accounts

On a quarterly basis we evaluate the need to establish an allowance for doubtful accounts, by analyzing our clients' creditworthiness. Our evaluation and analysis includes specific identification and review of all outstanding accounts receivable balances, review of our historical collection experience with each client, and consideration of overall economic conditions, as well as of any specific facts and circumstances that may indicate that a specific client receivable is not collectible. We make judgments as to our ability to collect outstanding receivables and establish an allowance when collection becomes doubtful. At December 31, 2014 and 2013 , our allowance for doubtful accounts was $2.2 million and $1.0 million , respectively, based on our evaluation and analysis. If our future actual collections are lower than expected, our cash flows and future results of operations could be negatively impacted.

Capitalized Software Costs

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

Goodwill

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

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

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

Management reorganized Cornerstone Growth Edition, formerly Cornerstone Small Business, resulting in a change in the reporting unit in 2014. We are now structured as one reporting unit for our purpose of our impairment analysis as of December 31, 2014 . Management recorded goodwill related to the Evolv acquisition in November 2014, which was considered in the impairment analysis. Based on the results of the annual impairment test, the fair value of the reporting unit exceeded its carrying value by a significant amount and therefore no impairment of goodwill existed at December 31, 2014 .

Intangible Assets

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

We evaluate the recoverability of our long-lived assets with finite useful lives, including intangible assets for impairment, whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Such triggering events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, a significant adverse change in legal factors or in the business climate, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows expected to be generated from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. We perform impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. There were no impairment charges related to the identified intangible assets in the years ended December 31, 2014 and 2013 .

Investments in Marketable Securities

Our available-for-sale investments in marketable securities are recorded at fair value, with any unrealized gains and losses, net of taxes, reported as a component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred. If we determine that an other-than-temporary decline has occurred for debt securities that we do not then currently intend to sell, we recognize the credit loss component of an other-than-temporary impairment in other income (expense) and the remaining portion in other comprehensive income (loss). The credit loss component is identified as the amount of the present value of cash flows not expected to be received over the remaining term of the security, based on cash flow projections. In determining whether an other-than-temporary impairment exists, we consider: (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition and near-term prospects of the issuer of the securities; and (iii) our intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of marketable securities sold is determined based on the specific identification method and any realized gains or losses on the sale of investments are reflected as a component of interest income or expense. In addition, we classify marketable securities as current or non-current based upon the maturity dates of the securities. At December 31, 2014 , we had $119.2 million of investments in marketable securities.

Strategic Investments

In June 2014, we made a $0.5 million investment in a debt security of a privately-held company. We have elected fair value accounting for this debt security, and therefore, the current strategic investment is recorded at fair value, with any changes in value recorded in other income (expense) in the accompanying Consolidated Statement of Operations. In September 2014, we made a $0.4 million investment in equity securities of a privately-held company. We are accounting for this investment using the cost method of accounting. This investment is subject to a periodic impairment review and is considered to be impaired when a decline in fair value is judged to be other-than-temporary. These investments are included in long-term investments on the Consolidated Balance Sheet.

Senior Convertible Notes

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

Income Taxes

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

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

Recent Accounting Pronouncements

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

Results of Operations

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

	Year Ended December 31,		
	2014	2013	2012
Revenue	$ 263,568	$ 185,129	$ 117,914
Cost of revenue	77,684	53,548	34,591
Gross profit	185,884	131,581	83,323
Operating expenses:			
Sales and marketing	162,552	109,737	73,563
Research and development	30,618	21,260	14,886
General and administrative	41,802	33,572	25,912
Amortization of certain acquired intangibles	828	1,004	739
Total operating expenses	235,800	165,573	115,100
Loss from operations	(49,916)	(33,992)	(31,777)
Other income (expense):			
Interest income	720	357	—
Interest expense	(12,157)	(6,563)	(442)
Other, net	(2,691)	(356)	40
Other income (expense), net	(14,128)	(6,562)	(402)
Loss before income tax (provision) benefit	(64,044)	(40,554)	(32,179)
Income tax (provision) benefit	(855)	128	789
Net loss	$ (64,899)	$ (40,426)	$ (31,390)

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

Metrics

	At or For Year Ended December 31,		
	2014	2013	2012
Revenue (in thousands)	$ 263,568	$ 185,129	$ 117,914
Bookings (in thousands)	$ 316,082	$ 231,699	$ 154,286
Annual dollar retention rate	93.7%	94.6%	94.3%
Number of clients	2,153	1,631	1,237
Number of users (in millions)	18.1	14.1	10.6

Revenue increased $78.4 million , or 42% , for the year ended December 31, 2014 as compared to the same period in 2013 . The increase was primarily the result of a $64.8 million increase in revenue from existing clients, specifically, revenue from client agreements that were entered into prior to January 1, 2014. In addition, Revenue increased by $13.6 million from the acquisition of new clients during the year ended December 31, 2014 .

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

The rate at which revenue increased year over year declined in the current period, from a 57% revenue increase from the year ended December 31, 2012 to the year ended December 31, 2013 to a 42% revenue increase from the year ended December 31, 2013 to the year ended December 31, 2014. Our growth rate can depend on a variety of factors, such as the size, volume and complexity of our agreements with our customers, our ability to work with our customers to implement and deliver our solutions, our ability to upsell and renew our existing customers, the success of our alliance and partnership arrangements, and the expansion of our business through emerging markets.

The following table sets forth our revenue based on the location of our clients for each of the periods indicated (dollar amounts in thousands):

	At or For Year Ended December 31,		
	2014	2013	2012
Revenue for United States	$ 180,834	$ 128,983	$ 81,837
Percentage of total revenue for United States	69%	70%	69%
Revenue for all other countries	$ 82,734	$ 56,146	$ 36,077
Percentage of total revenue for all other countries	31%	30%	31%
	$ 263,568	$ 185,129	$ 117,914

Bookings increased $84.4 million , or 36% for the year ended December 31, 2014 as compared to the same period in 2013 , reflecting the increase in revenue for the period, plus an increase in deferred revenue at December 31, 2014 from December 31, 2013 compared to the increase at December 31, 2013 from December 31, 2012 . The growth rates for revenue and bookings are not correlated with each other in a given period due to the seasonality of when we enter into client agreements, the varied timing of billings, the recognition of subscription revenue generally on a straight-line basis over the term of each client agreement, and the recognition of consulting revenue generally on a proportional performance basis over the period the services are performed.

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

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

	Deferred Revenue Balance	Year Ended December 31, 2014
Revenue		$ 263,568
Deferred revenue at December 31, 2013	$ 138,822	
Deferred revenue at December 31, 2014	191,336	
Change in deferred revenue		52,514
Bookings		**$ 316,082**

	Deferred Revenue Balance	Year Ended December 31, 2013
Revenue		$ 185,129
Deferred revenue at December 31, 2012	$ 92,252	
Deferred revenue at December 31, 2013	138,822	
Change in deferred revenue		46,570
Bookings		**$ 231,699**

	Deferred Revenue Balance	Year Ended December 31, 2012
Revenue		$ 117,914
Deferred revenue at December 31, 2011	$ 55,880	
Deferred revenue at December 31, 2012	92,252	
Change in deferred revenue		36,372
Bookings		**$ 154,286**

We believe our revenue and bookings growth is a result of our continued investment in and development of our direct sales team. We believe these investments have enabled us to achieve greater sales coverage and better sales execution. In addition, we have increased our marketing activities which we believe has improved brand awareness and created higher demand for our solutions. We have also continued to enhance our Enterprise and Mid-Market solution, which we believe has encouraged existing clients to buy multiple products with their initial purchase and add additional products and users over the term of their agreement.

Our number of clients grew 32% at December 31, 2014 compared to December 31, 2013 . Our number of users increased 29% at December 31, 2014 compared to December 31, 2013 .

Cost of Revenue, Gross Profit and Gross Margin

	Year Ended December 31,		
	2014	2013	2012
		(dollars in thousands)	
Cost of revenue	$ 77,684	$ 53,548	$ 34,591
Gross profit	$ 185,884	$ 131,581	$ 83,323
Gross margin	71%	71%	71%

Cost of revenue increased $24.1 million , or 45% , in 2014 as compared to 2013 , principally attributable to $10.5 million in increased costs related to outsourced consulting services, $4.1 million in increased allocated overhead such as rent, IT costs, depreciation and amortization and employee benefits costs, $2.7 million in increased employee-related costs due to higher headcount, $2.1 million in increased amortization of capitalized software mainly due to the additional amortization of software obtained through the acquisition of Evolv, $2.0 million in increased third-party content cost, and $1.1 million in increased reseller and referral fees. These costs were incurred to service our existing clients and support our continued growth. The remaining increase relates to various other costs associated with generating revenue from our clients.

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

The following table presents our estimate of remaining amortization expense for each of the five succeeding fiscal years for finite-lived intangible assets that existed at December 31, 2014 (in thousands):

2015	$	10,568
2016		9,282
2017		7,419
2018		10
2019		3
Total	**$**	**27,282**

Estimated remaining amortization expense of $10.0 million , $9.1 million , $7.4 million , $10,000 , and $3,000 will be recorded in cost of revenue for 2015 , 2016 , 2017 , 2018 , and 2019 , respectively. The remaining estimated amortization expense will be recorded in amortization of certain acquired intangible assets within operating expenses.

Sales and Marketing

	Year Ended December 31,		
	2014	**2013**	**2012**
		(dollars in thousands)	
Sales and marketing	$ 162,552	$ 109,737	$ 73,563
Percent of revenue	62%	59%	62%

Sales and marketing expenses increased $52.8 million , or 48% , in 2014 as compared to 2013 . The increase was attributable to the expansion of our sales force as well as increased sales commissions and increases in marketing programs to address additional opportunities in new and existing markets. Total headcount in sales and marketing at December 31, 2014 increased compared to December 31, 2013, contributing to an increase in employee-related costs of $37.9 million. In addition, we incurred increased travel costs associated with our direct sales teams of $5.4 million, overhead costs, such as rent, IT costs, and depreciation and amortization, of $5.1 million, and increased costs associated with outsourced marketing programs and events of $4.3 million.

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

Research and Development

	Year Ended December 31,		
	2014	**2013**	**2012**
		(dollars in thousands)	
Research and development	$ 30,618	$ 21,260	$ 14,886
Percent of net revenue	12%	11%	13%

Research and development expenses increased $9.4 million , or 44% , in 2014 as compared to 2013 . The increase was principally due to an increase in research and development headcount at December 31, 2014 compared to December 31, 2013 to maintain and improve the functionality of our solutions. As a result, we incurred increased employee-related costs of $6.9 million. The remaining increase primarily relates to allocated overhead costs.

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

We capitalize a portion of our software development costs related to the development and enhancements of our solutions, which are then amortized to cost of revenue. The timing of our capitalizable development and enhancement projects may affect the amount of development costs expensed in any given period. We capitalized $11.4 million , $7.9 million and $5.7 million of software development costs and amortized $6.3 million , $4.3 million and $2.8 million in 2014 , 2013 and 2012 , respectively.

General and Administrative

	Year Ended December 31,		
	2014	2013	2012
		(dollars in thousands)	
General and administrative	$ 41,802	$ 33,572	$ 25,912
Percent of net revenue	16%	18%	22%

General and administrative expenses increased $8.2 million , or 25% , in 2014 as compared to 2013 . The increase was driven by higher costs to support our growing business. We incurred increased employee-related costs of $4.1 million as a result of increased headcount and stock-based compensation awards at December 31, 2014 compared to December 31, 2013. In addition, we incurred $1.3 million in costs related to the acquisition of Evolv Inc. General and administrative expenses are expected to increase with the growth of our company.

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

Amortization of certain acquired intangible assets

	Year Ended December 31,		
	2014	2013	2012
		(dollars in thousands)	
Amortization of certain acquired intangible assets	$ 828	$ 1,004	$ 739

Amortization of acquired intangibles decreased $0.2 million for the year ended December 31, 2014 as compared to the same period in 2013 due to the amortization of intangible assets acquired through the April 2012 acquisition of Sonar.

Other Income (Expense)

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Interest income	$ 720	$ 357	$ —
Interest expense	(12,157)	(6,563)	(442)
Other, net	(2,691)	(356)	40
Other income (expense), net	$ (14,128)	$ (6,562)	$ (402)

Interest income for the year ended December 31, 2014 increased by $0.4 million as compared to the same period in 2013 due to the interest income earned on purchase of investment securities net of purchased premium amortization in the year ended December 31, 2014 .

Interest expense for the year ended December 31, 2014 increased $5.6 million as compared to the same period in 2013 due to the increase in the accretion of debt discount and the amortization of debt issuance costs of $4.0 million and interest expense of $1.8 million for the convertible notes issued in June 2013. Refer to the section titled *"Liquidity and Capital Resources"* below for additional information on the convertible notes.

Other, net is comprised of foreign exchange gains and losses related to transactions denominated in foreign currencies and unrealized gains and losses related to our intercompany loans and certain cash accounts. Foreign exchange gains and losses for the years ended December 31, 2014 , 2013 and 2012 , respectively, were primarily driven by fluctuations in the Euro and U.S. Dollar in relation to the British Pound.

Income Tax (Provision) Benefit

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Income tax (provision) benefit	$ (855)	$ 128	$ 789

We have recorded a full valuation allowance against our United States, United Kingdom and New Zealand net deferred tax assets and therefore have not recorded a (provision) benefit for income taxes for the year ended December 31, 2014, other than provisions for certain foreign current income taxes. The tax benefits in 2013 and 2012 were primarily related to reversing taxable differences in New Zealand, which did not have a valuation allowance.

Liquidity and Capital Resources

In June 2013, we issued $253 million of 1.5% convertible notes due July 1, 2018 (the "Notes") and concurrently entered into convertible notes hedges and separate warrant transactions. The Notes mature on July 1, 2018, unless earlier converted. Upon conversion of any Notes, we will deliver cash up to the principal amount, and we have the right to settle any amounts in excess of the principal in cash or shares. We received proceeds of $246.0 million from the issuance of the Notes, net of associated fees, received $23.2 million from the issuance of the warrants and paid $49.5 million for the note hedges. The Notes are classified as a non-current liability on our consolidated balance sheet as of December 31, 2014.

In November 2014, we used $43.3 million in cash in connection with our acquisition of Evolv, Inc. At December 31, 2014 , our principal sources of liquidity were $166.6 million of cash and cash equivalents, investments in marketable securities of $119.2 million , and $84.5 million of accounts receivable.

We intend to use our cash for general corporate purposes, including potential future acquisitions or other transactions. Depending on certain growth opportunities, we may choose to accelerate investments in sales and marketing, research and development, technology and services, which may require the use of proceeds for such additional expansion and expenditures. Based on our current level of operations and anticipated growth, we believe our future cash flows from operating activities and existing cash and cash equivalents will provide adequate funds for our ongoing operations and general corporate purposes for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue, billings growth and collections, the level of our sales and marketing efforts, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of introductions of new services and enhancements to existing services, the timing of general and

administrative expenses as we grow our administrative infrastructure, and the continuing market acceptance of our solution. To the extent that existing cash and cash from operations are not sufficient to fund our future activities, we may need to raise additional funds or utilize our cash resources. Although we are not currently a party to any agreement or letter of intent with respect to potential investments in, or acquisitions of, complementary businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional financing or utilize our cash resources.

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

	Year Ended December 31,		
	2014	2013	2012
Net cash provided by operating activities	$ 33,009	$ 17,431	$ 10,294
Net cash provided by (used in) investing activities	15,005	(213,445)	(19,581)
Net cash provided by financing activities	10,840	228,928	312

Net Cash Provided by Operating Activities

Our cash flows from operating activities are significantly influenced by our growth, ability to maintain our contractual billing and collection terms, and our investments in headcount and infrastructure to support anticipated growth. Given the seasonality and continued growth of our business, our cash flows from operations will vary from period to period.

Cash provided by operating activities of $33.0 million during 2014 was a result of the continued growth of our business and our continued investments for further growth. In the year ended December 31, 2014 , $59.5 million, or 92%, of our net loss of $64.9 million consisted of non-cash items, including $33.7 million of stock-based compensation, $15.1 million of depreciation and amortization, $8.3 million of accretion of debt discount and amortization of debt issuance costs, $1.7 million of unrealized foreign exchange losses, and amortization of a purchased premium of $0.8 million related to investment securities.

Cash provided by operating activities includes a $55.2 million increase in deferred revenue due to increased billings during the year ended December 31, 2014, a $6.4 million increase in accrued liabilities primarily due to the timing of payments, an increase in accounts payable of $4.6 million attributable to increased expenses associated with our growth, and $1.2 million decrease in prepaid and other assets primarily due to the timing of payments to vendors. Cash provided by operating activities is partially offset by a $18.7 million increase in accounts receivable attributable to higher billings in the fiscal year 2014 due to an increased number of clients, a $10.1 million increase in deferred commissions due to increased sales, and decrease in other liabilities of $0.3 million .

Cash provided by operating activities during 2013 of $17.4 million was a result of the continued growth of our business and our continued investments for further growth. In the year ended December 31, 2013, $32.2 million, or 80%, of our net loss of $40.4 million consisted of non-cash items, including $20.8 million of stock-based compensation, $9.7 million of depreciation and amortization, and $4.3 million of accretion of debt discount and amortization of debt issuance costs. These non-cash expenses were partially offset by a purchased premium of $2.0 million related to investment securities, net of amortization. Cash provided by operating activities includes a $45.2 million increase in deferred revenue due to increased billings during the year ended December 31, 2013, a $6.8 million increase in accrued liabilities primarily due to the timing of payments, an increase in accounts payable of $5.1 million attributable to increased expenses associated with our growth, and an increase in other liabilities of $0.7 million. Cash provided by operating activities is partially offset by a $19.0 million increase in accounts receivable attributable to higher billings in the fiscal year 2013 due to an increased number of clients, a $7.1 million increase in deferred commissions due to increased sales, and a $6.1 million increase in prepaid and other assets due to an increase in business activity associated with the growth of our business and the timing of payments to vendors.

Cash provided by operating activities during 2012 of $10.3 million was a result of the continued growth of our business and our ability to bill and collect from our customers, partially offset by our continued investments for further growth. In the year ended December 31, 2012, $18.2 million, or 58%, of our net loss of $31.4 million consisted of non-cash items, including $12.2 million of stock-based compensation and $7.0 million of depreciation and amortization. These non-cash expenses were partially offset by a non-cash deferred tax benefit of $1.0 million. Cash provided by operating activities includes a $35.3 million increase in deferred revenue due to increased billings during the year ended December 31, 2012, a $6.3 million increase in accrued liabilities primarily due to the timing of payments, and an increase

in other liabilities of $3.7 million. Cash provided by operating activities is partially offset by a $12.3 million increase in accounts receivable attributable to higher billings in the fiscal year 2012 due to an increased number of clients, a $5.7 million increase in deferred commissions due to increased sales and a change in our commission plan payment schedule during the period, and a $4.2 million increase in prepaid and other assets due to an increase in business activity associated with the growth of our business and the timing of payments to vendors.

Net Cash Provided by (Used in) Investing Activities

Our primary investing activities have consisted of investments, capital expenditures to develop our capitalized software as well as to purchase software, computer equipment, leasehold improvements, and furniture and fixtures in support of expanding our infrastructure and workforce. In July 2013 we began to invest the proceeds of our convertible notes in investment securities. In addition, in June and September 2014, we made strategic investments in privately-held companies. In November of 2014 we purchased the privately held company, Evolv, Inc. As our business grows, we expect our capital expenditures and our investment activity to continue to increase.

Cash provided by investing activities during 2014 of $15.0 million was primarily due to $203.1 million related to cash received from the maturities and sales of investment securities. Cash used in investing activities was partially offset by $124.2 million in purchases of investment securities, $43.3 million used in our acquisition of Evolv Inc., $11.0 million in purchases of additional equipment, and $9.5 million of investments in our capitalized software during the period. Our investments in fixed assets consisted of $13.9 million in corporate office renovations, purchases of additional furniture and equipment for our expanding infrastructure and work force, which were primarily financed through $11.0 million in cash, and $2.9 million through our accounts payable and accrued expenses.

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

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

Net Cash Provided by Financing Activities

Cash provided by financing activities of $10.8 million in the year ended December 31, 2014 was primarily due to proceeds from stock option exercises of $12.3 million . These proceeds were partially offset by our payments of $0.9 million on our capital lease and financing obligations and repayment of our credit facility of $0.6 million .

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

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

Contractual Obligations

Our principal commitments consist of obligations for outstanding debt, leases for our office space, computer equipment, furniture and fixtures, contractual commitments for professional service projects and third party consulting firms. The following table summarizes our contractual obligations at December 31, 2014 (in thousands):

		Year Ending December 31,					
	Total	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Long-term debt obligations including interest	$ 266,648	$ 2,263	$ 3,795	$ 3,795	$ 256,795	$ —	$ —
Capital lease obligations	239	239	—	—	—	—	—
Operating lease obligations	27,927	5,852	7,233	7,046	7,215	581	—
Other contractual obligations (1)	45,324	20,241	7,960	5,923	5,600	5,600	—
	$ 340,138	$ 28,595	$ 18,988	$ 16,764	$ 269,610	$ 6,181	$ —

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

At December 31, 2014 , liabilities for unrecognized tax benefits of $0.4 million which are attributable to foreign income taxes and interest and penalties, are not included in the table above because, due to their nature, there is a high degree of uncertainty regarding the time of future cash outflows and other events that extinguish these liabilities.

Off-Balance Sheet Arrangements

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

During 2013, we amended a standby letter of credit in association with a building lease and signed a standby letter of credit for a contractual arrangement in Israel. In addition, we maintain standby letters of credit in association with other contractual arrangements. The total amount outstanding is $1.5 million at December 31, 2014 .

Item 7A. *Quantitative and Qualitative Disclosures About Market Risks*

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large clients and limit credit exposure by collecting in advance and setting credit limits as we deem appropriate. In addition, our investment strategy has been to invest in financial instruments including corporate bonds, U.S. treasury, agency securities and money market funds backed by United States Treasury Bills within the guidelines established under our investment policy. We also make strategic investments in privately-held companies in the development stage. To date, we have not used derivative instruments to mitigate the impact of our market risk exposures. We have also not used, nor do we intend to use, derivatives for trading or speculative purposes.

Interest Rate Risk

At December 31, 2014 , we had cash and cash equivalents of $166.6 million and investments of $119.2 million , which primarily consisted of corporate bonds, U.S. treasury and agency securities, money market funds backed by United States Treasury Bills and other debt securities. The carrying amount of our cash equivalents reasonably approximates fair value due to the short maturities of these instruments.

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

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

Foreign Currency Risk

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

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. Dollar can increase the costs of our international expansion. To date, we have not entered into any foreign currency hedging contracts although we may do so in the future. The effect of an immediate 10% adverse change in foreign exchange rates on foreign-denominated accounts at December 31, 2014 , including our intercompany loans with our subsidiaries, would result in a foreign currency loss of approximately $7.1 million.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Counterparty Risk

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

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Cornerstone OnDemand, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
February 27, 2015

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

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 166,557	$ 109,583
Short-term investments	116,106	199,925
Accounts receivable, net	84,499	67,191
Deferred commissions	26,236	16,634
Prepaid expenses and other current assets	13,007	14,118
Total current assets	406,405	407,451
Capitalized software development costs, net	15,719	10,665
Property and equipment, net	21,424	14,436
Long-term investments	3,938	—
Intangible assets, net	27,282	4,632
Goodwill	25,894	8,193
Other assets, net	4,993	5,978
Total Assets	$ 505,655	$ 451,355
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 16,737	$ 10,037
Accrued expenses	29,476	22,288
Deferred revenue, current portion	180,598	135,322
Capital lease obligations, current portion	236	905
Debt, current portion	351	519
Other liabilities	3,052	4,203
Total current liabilities	230,450	173,274
Convertible notes, net	225,094	217,965
Other liabilities, non-current	3,871	3,111
Deferred revenue, net of current portion	10,738	3,500
Capital lease obligations, net of current portion	—	218
Debt, net of current portion	—	392
Total liabilities	470,153	398,460
Commitments and contingencies (Note 15)		
Stockholders' Equity:		
Common stock, $0.0001 par value; 1,000,000 shares authorized, 53,826 and 52,470 shares issued and outstanding at December 31, 2014 and 2013	5	5
Additional paid-in capital	336,692	289,307
Accumulated deficit	(301,366)	(236,467)
Accumulated other comprehensive income	171	50
Total stockholders' equity	35,502	52,895
Total Liabilities and Stockholders' Equity	$ 505,655	$ 451,355

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

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

	Years Ended December 31,		
	2014	**2013**	**2012**
Revenue	$ 263,568	$ 185,129	$ 117,914
Cost of revenue	77,684	53,548	34,591
Gross profit	185,884	131,581	83,323
Operating expenses:			
Sales and marketing	162,552	109,737	73,563
Research and development	30,618	21,260	14,886
General and administrative	41,802	33,572	25,912
Amortization of certain acquired intangible assets	828	1,004	739
Total operating expenses	235,800	165,573	115,100
Loss from operations	(49,916)	(33,992)	(31,777)
Other income (expense):			
Interest income	720	357	—
Interest expense	(12,157)	(6,563)	(442)
Other, net	(2,691)	(356)	40
Other income (expense), net	(14,128)	(6,562)	(402)
Loss before income tax (provision) benefit	(64,044)	(40,554)	(32,179)
Income tax (provision) benefit	(855)	128	789
Net loss	$ (64,899)	$ (40,426)	$ (31,390)
Net loss per share, basic and diluted	$ (1.22)	$ (0.79)	$ (0.63)
Weighted average common shares outstanding, basic and diluted	53,267	51,427	49,929

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

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

	Years Ended December 31,		
	2014	2013	2012
Net loss	$ (64,899)	$ (40,426)	$ (31,390)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	308	3	(273)
Net change in unrealized (losses) gains on investments	(187)	130	—
Other comprehensive income (loss), net of tax	121	133	(273)
Total comprehensive loss	$ (64,778)	$ (40,293)	$ (31,663)

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

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

	Common Stock		Treasury Stock					
	Shares	Par Value	Shares	At Cost	Additional Paid-In Capital (Deficit)	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2011	**49,274**	**$ 5**	**—**	**$ —**	**$ 226,916**	**$ (164,651)**	**$ 190**	**$ 62,460**
Issuance of common stock for the exercise of warrants to purchase common stock	130	—	—	—	208	—	—	208
Issuance of common stock upon the exercise of options	1,127	—	—	—	2,490	—	—	2,490
Vesting of early exercised options	—	—	—	—	55	—	—	55
Vesting of restricted stock units	112	—	—	—	—	—	—	—
Shares issued for acquisition of Sonar Limited	47	—	—	—	335	—	—	335
Stock-based compensation	—	—	—	—	12,763	—	—	12,763
Net loss	—	—	—	—	—	(31,390)	—	(31,390)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(273)	(273)
Balance as of December 31, 2012	**50,690**	**$ 5**	**—**	**$ —**	**$ 242,767**	**$ (196,041)**	**$ (83)**	**$ 46,648**
Issuance of common stock upon the exercise of options	1,566	—	—	—	13,432	—	—	13,432
Vesting of early exercised options	—	—	—	—	28	—	—	28
Vesting of restricted stock units	214	—	—	—	—	—	—	—
Tax benefits from employee stock plans	—	—	—	—	29	—	—	29
Stock-based compensation	—	—	—	—	21,769	—	—	21,769
Net change in unrealized gains on investments	—	—	—	—	—	—	130	130
Equity component of convertible notes	—	—	—	—	11,282	—	—	11,282
Net loss	—	—	—	—	—	(40,426)	—	(40,426)
Other comprehensive income, net of tax	—	—	—	—	—	—	3	3
Balance as of December 31, 2013	**52,470**	**$ 5**	**—**	**$ —**	**$ 289,307**	**$ (236,467)**	**$ 50**	**$ 52,895**
Issuance of common stock upon the exercise of options	1,154	—	—	—	12,142	—	—	12,142
Vesting of restricted stock units	202	—	—	—	—	—	—	—

Stock-based compensation	—	—	—	—	35,243	—	—	35,243
Net change in unrealized gains on investments	—	—	—	—	—	—	(187)	(187)
Net loss	—	—	—	—	—	(64,899)	—	(64,899)
Other comprehensive income, net of tax	—	—	—	—	—	—	308	308
Balance as of December 31, 2014	**53,826**	**$ 5**	**—**	**$ —**	**$ 336,692**	**$ (301,366)**	**$ 171**	**$ 35,502**

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

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

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net loss	$ (64,899)	$ (40,426)	$ (31,390)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	15,086	9,700	7,037
Accretion of debt discount and amortization of debt issuance costs	8,274	4,273	143
Purchased investment premium, net of amortization	816	(2,031)	—
Unrealized foreign exchange loss (gain)	1,656	242	(182)
Stock-based compensation expense	33,680	20,840	12,207
Deferred income taxes	(7)	(865)	(965)
Changes in operating assets and liabilities, net of effects from acquisition:			
Accounts receivable	(18,674)	(19,046)	(12,254)
Deferred commissions	(10,097)	(7,085)	(5,691)
Prepaid expenses and other assets	1,245	(6,057)	(4,188)
Accounts payable	4,562	5,082	190
Accrued expenses	6,446	6,828	6,325
Deferred revenue	55,216	45,230	35,327
Other liabilities	(295)	746	3,735
Net cash provided by operating activities	33,009	17,431	10,294
Cash flows from investing activities:			
Purchases of investments	(124,191)	(203,959)	—
Maturities of investments	203,078	6,182	—
Purchases of property and equipment	(11,025)	(8,762)	(2,123)
Capitalized software costs	(9,529)	(6,906)	(5,030)
Cash paid for acquisition, net of cash acquired	(43,328)	—	(12,428)
Net cash provided by (used in) investing activities	15,005	(213,445)	(19,581)
Cash flows from financing activities:			
Proceeds from issuance of convertible notes, net	—	245,664	—
Payments for convertible note hedges	—	(49,537)	—
Proceeds from the issuance of warrants	—	23,225	—
Proceeds from the issuance of debt	—	1,914	1,043
Repayment of debt	(559)	(4,038)	(1,510)
Principal payments under capital lease obligations	(886)	(1,747)	(1,919)
Proceeds from stock option and warrant exercises	12,285	13,447	2,698
Net cash provided by financing activities	10,840	228,928	312
Effect of exchange rate changes on cash and cash equivalents	(1,880)	227	8
Net increase (decrease) in cash and cash equivalents	56,974	33,141	(8,967)
Cash and cash equivalents at beginning of period	109,583	76,442	85,409
Cash and cash equivalents at end of period	$ 166,557	$ 109,583	$ 76,442
Supplemental cash flow information:			
Cash paid for interest	$ 3,880	$ 2,294	$ 341
Cash paid for income taxes	$ 546	$ 485	$ 103
Non-cash investing and financing activities:			

Assets acquired under capital leases and other financing arrangements	$ —	$ 88	$ 3,722
Common stock issued for business acquisition	$ —	$ —	$ 335
Capitalized assets financed by accounts payable and accrued expenses	$ 2,925	$ 1,175	$ 693
Capitalized stock-based compensation	$ 1,563	$ 941	$ 556

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

CORNERSTONE ONDEMAND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Company Overview

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

The Company is a leading global provider of talent management solutions delivered as Software-as-a-Service ("SaaS"). The Company's Enterprise and Mid-Market solution is a comprehensive and unified cloud-based suite consisting of product offerings to help organizations manage their recruiting, onboarding, learning, performance, succession, compensation and enterprise social collaboration processes.

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

Office Locations

The Company is headquartered in Santa Monica, California and has offices in Amsterdam, Auckland, Düsseldorf, Hong Kong, London, Madrid, Mumbai, Munich, Paris, San Francisco, São Paulo, Stockholm, Sunnyvale, Sydney, Tel Aviv, and Tokyo.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

Use of Estimates

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

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

Business Combinations

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

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

Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in the consolidated statement of operations. Transaction costs were $1.3 million and $0.7 million for the year ended December 31, 2014 and 2012, respectively. There were no transaction costs for the year ended December 31, 2013.

Revenue Recognition

The Company derives its revenue from the following sources:

- ***Subscriptions to the Company's solutions*** —Clients pay subscription fees for access to the Company's solutions for a specified period of time, typically three years for the Company's Enterprise and Mid-Market solution or annually or three-year periods for the Company's Cornerstone for Salesforce and Cornerstone Growth Edition solutions. Fees are based on a number of factors, including the number of users having access to a solution. The Company generally recognizes revenue from subscriptions ratably over the term of the agreement.
- ***Consulting services*** —The Company offers its clients assistance in implementing its solutions and optimizing their use. Consulting services include application configuration, system integration, business process re-engineering, change management, and training services. Services are billed either on a time-and-material or a fixed-fee basis. These services are generally purchased as part of a subscription arrangement. Clients may also purchase consulting services at any other time. Consulting services are performed by the Company directly or by third-party professional service providers the Company engages. Clients may also choose to perform these services themselves or engage their own third-party service providers. The Company generally recognizes revenue from fixed fee consulting services using the proportional performance method over the period the services are performed and as time is incurred for time-and-material arrangements.
- ***E-learning content*** —The Company resells third-party on-line training content, referred to as e-learning content, to its clients. In addition, the Company also hosts other e-learning content provided by its clients. The Company generally recognizes revenue from the resale of e-learning content as it is delivered and recognizes revenue from hosting as the hosting services are provided.

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

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

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

The Company is generally not able to determine VSOE or TPE for its deliverables, because the deliverables are sold separately and within a sufficiently narrow price range only infrequently, and because management has determined that there are no third-party offerings reasonably comparable to the Company's solutions. Accordingly, the selling prices of subscriptions to the solutions and consulting services is based on BESP. The determination of BESP requires the Company to make significant estimates and judgments. The Company considers numerous factors, including the nature of the deliverables themselves; the geography, market conditions and competitive landscape for the sale; internal costs; and pricing and discounting practices. The determination of BESP is made through consultation with senior management. The Company updates its estimates of BESP on an ongoing basis as events and as circumstances may require.

After the contract value is allocated to each deliverable in a multiple deliverable arrangement based on the relative selling price method is determined, revenue is recognized for each deliverable based pattern in which the revenue is earned. For subscriptions to the solutions, revenue is recognized on a straight-line basis over the subscription term, which is typically three years. For consulting services, revenue is recognized using the proportional performance method over the period the services are performed. For e-learning content and hosting, revenue is recognized ratably over the period the content is delivered or hosting service is provided.

In a limited number of cases, the client's intended use of a solution requires enhancements to its underlying features and functionality. In some of these cases, revenue is recognized as one unit of accounting on a straight-line basis from the point at which the enhancements have been made to the solution, through the remaining term of the agreement. In other cases where the enhancement is not required for the client's intended use, revenue is not recognized as one unit of accounting rather the allocated value of the enhancement is recognized on a straight-line basis once the enhancement has been made.

For arrangements in which the Company resells third-party e-learning training content to clients or hosts client or third-party e-learning training content provided by the client, revenue is recognized in accordance with accounting guidance as to when to report gross revenue as a principal or report net revenue as an agent. The Company recognizes third-party content revenue at the gross amount invoiced to clients when (i) the Company is the primary obligor, (ii) the Company has latitude to establish the price charged, and (iii) the Company bears the credit risk in the transaction. For arrangements involving the sale of third-party content, clients are charged for the content based on pay-per-use or a fixed rate for a specified number of users, and revenue is recognized at the gross amount invoiced as the content is delivered. For arrangements where clients purchase third-party content directly from a third-party vendor, or provide it themselves, and the Company integrates the content into a solution, the Company charges a fee per user or fee based on estimated bandwidth. In such cases, the fees are recognized at the net amount charged by the Company for hosting services as the content is delivered.

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

Cost of Revenue

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

Commission Payments

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

During the years ended December 31, 2014 , 2013 , and 2012 , the Company deferred $31.7 million , $22.8 million and $16.1 million , respectively, of commissions on the balance sheet. During the years ended December 31, 2014 , 2013 , and 2012 , the Company recognized $22.1 million , $15.5 million and $10.3 million in commissions expense to sales and marketing expense, respectively. As of December 31, 2014 and 2013 , deferred commissions on the Company’s consolidated balance sheets totaled $26.2 million and $16.6 million , respectively.

Research & Development

Research and development expenses consist primarily of personnel and related expenses for the Company’s research and development staff, including salaries, benefits, bonuses and stock-based compensation; the cost of certain third-party service providers; and allocated overhead. Research and development expenses, other than software development costs qualifying for capitalization, are expensed as incurred. The Company’s research and development expenses were $30.6 million in 2014 , $21.3 million in 2013 , and $14.9 million in 2012 .

Advertising

Advertising expenses for 2014 , 2013 , and 2012 , were $3.7 million , $2.0 million , and $0.4 million , respectively, and are expensed as incurred.

Stock-Based Compensation

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

The Black-Scholes option pricing model requires assumptions, estimated volatility, risk-free rate, expected term and estimated dividend yield. The assumptions used in calculating the fair value of stock options represents the Company’s best estimates, based on management judgment. The Company uses the average volatility of similar publicly traded companies as an estimate for estimated volatility. The Company determines the expected term of awards which contain only service conditions using the simplified approach, in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award, as the Company does not have sufficient historical data relating to stock-option exercises. For awards granted which contain performance conditions the Company estimates the expected term based on estimates of post-vesting employment termination behavior taking into account the life of the award. The risk-free interest rate

for periods within the expected or contractual life of the option, as applicable, is based on the United States Treasury yield curve in effect during the period the options were granted. The estimated dividend yield is zero, as the Company has not declared, and does not currently intend to declare, dividends in the foreseeable future.

The following information represents the weighted average of the assumptions used in the Black-Scholes option-pricing model:

	For the Years Ended December 31,		
	2014	2013	2012
Risk-free interest rate	1.9%	1.5%	1.0%
Expected term (in years)	6.0	6.0	5.8
Estimated dividend yield	—%	—%	—%
Estimated volatility	49.9%	51.5%	53.9%

The Company estimates the fair value of its performance-based restricted stock units, which included a market condition performance criteria, using a Monte Carlo simulation model that factors in the probability of the award vesting. For performance-based awards, the fair value is not determined until all of the terms and conditions are established.

Due to the full valuation allowance provided on its net deferred tax assets, the Company has not recorded any tax benefit attributable to stock-based compensation expense as of December 31, 2014 and 2013 .

Capitalized Software Costs

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

During the years ended December 31, 2014 , 2013 and 2012 , the Company capitalized $11.4 million , $7.9 million , and $5.7 million , respectively, of software development costs to the balance sheet. During the years ended December 31, 2014 , 2013 and 2012 , the Company amortized $6.3 million , $4.3 million , and $2.8 million to cost of revenue, respectively. Based on the Company’s capitalized software costs at December 31, 2014 , estimated amortization expense of $7.4 million , $5.6 million , $2.6 million and $0.2 million is expected to be recognized in 2015 , 2016 , 2017 and 2018 , respectively.

Comprehensive Loss

Comprehensive loss encompasses all changes in equity other than those arising from transactions with stockholders, and consists of net loss, currency translation adjustments and unrealized gains or losses on investments. For the years ended December 31, 2014 , 2013 and 2012 , accumulated other comprehensive income (loss) comprised a cumulative translation adjustment. For the years ended December 31, 2014 and 2013, accumulated other comprehensive income also included net unrealized gains (losses) on investments.

Income Taxes

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

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

Cash and Cash Equivalents

The Company considers cash and cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value, including investments with original or remaining maturities from the date of purchase of three months or less. At December 31, 2014 and 2013 , cash and cash equivalents consisted of cash balances of $76.0 million and $43.9 million , respectively, and money market funds backed by United States Treasury Bills of $90.6 million and $65.7 million , respectively.

Investments in Marketable Securities

The Company's available-for-sale investments in marketable securities are recorded at fair value, with any unrealized gains and losses, net of taxes, reported as a component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred. If the Company determines that an other-than-temporary decline has occurred for debt securities that the Company does not then currently intend to sell, the Company recognizes the credit loss component of an other-than-temporary impairment in other income (expense) and the remaining portion in other comprehensive income (loss). The credit loss component is identified as the amount of the present value of cash flows not expected to be received over the remaining term of the security, based on cash flow projections. In determining whether an other-than-temporary impairment exists, the Company considers: (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition and near-term prospects of the issuer of the securities; and (iii) the Company's intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of marketable securities sold is determined based on the specific identification method and any realized gains or losses on the sale of investments are reflected as a component of interest income or expense. In addition, the Company classifies marketable securities as current or non-current based upon the maturity dates of the securities. At December 31, 2014 and 2013 , the Company had $119.2 million and $199.9 million , respectively, of investments in marketable securities.

Strategic Investments

In June 2014, the Company made a $0.5 million investment in a debt security of a privately-held company. The Company accounted for this debt security using fair value accounting, and therefore, the current strategic investment is recorded at fair value, with any changes in value recorded in other income (expense) in the accompanying Consolidated Statement of Operations. In September 2014, the Company made a $0.4 million investment in equity securities of a privately-held company. The Company accounted for this investment using the cost method of accounting. This investment is subject to a periodic impairment review and is considered to be impaired when a decline in fair value is judged to be other-than-temporary. These investments are included in long-term investments on the Consolidated Balance Sheet.

Restricted Cash

Included in current and non-current other assets at December 31, 2014 and 2013 were restricted cash of $0.1 million and $0.2 million , respectively, in relation to a standby letter of credit in British Pounds for a foreign sales arrangement with a customer in the United Kingdom.

Allowance for Doubtful Accounts

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

A reconciliation of the beginning and ending amount of allowance for doubtful accounts for the years ended December 31, 2014 , 2013 and 2012 , is as follows (in thousands):

	2014	2013	2012
Beginning balance, January 1	$ 1,021	$ 464	$ 153
Additions and adjustments	2,084	968	358
Write-offs	(928)	(411)	(47)
Ending balance, December 31	**$ 2,177**	**$ 1,021**	**$ 464**

Property and Equipment, Net

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

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

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

Impairment of Long Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Such triggering events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, a significant adverse change in legal factors or in the business climate, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows expected to be generated from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated undiscounted future cash flows. There were no impairment charges related to identifiable long lived assets in the years ended December 31, 2014 and 2013 .

Intangible Assets

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

Goodwill

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

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

If the fair value of a reporting unit is less than the reporting unit's carrying value, the Company performs the second step of the test for impairment of goodwill in which the Company compares the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. The estimate of implied fair value of goodwill may require valuations of certain internally generated and unrecognized intangible assets and other assets and liabilities. If the carrying value of the goodwill exceeds the calculated implied fair value, the excess amount will be recognized as an impairment loss. Based on the results of the annual impairment test, no impairment of goodwill existed at December 31, 2014 .

Senior Convertible Notes

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

Fair Value of Financial Instruments

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

- Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that management has the ability to access at the measurement date.
- Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3—Unobservable inputs.

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

Concentration of Risk

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

For the years ended December 31, 2014 , 2013 and 2012 , no single client comprised more than 10% of the Company's revenue. No single client had an accounts receivable balance greater than 10% of total accounts receivable at December 31, 2014 or 2013 .

Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated into U.S. Dollars at the rates of exchange in effect at the date of the transaction. Transaction (losses) gains were approximately $(1.7) million , $(0.3) million and $0.2 million for the years ended December 31, 2014 , 2013 and 2012 , respectively, and are included in other, net within other income (expense), net, in the accompanying consolidated statements of operations.

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new accounting standards update that provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance will be effective for reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In June 2014, the FASB issued a new accounting standards update amending the accounting guidance for the disclosure requirements of Variable Interest Entities relating to development stage entities. The new standard is effective prospectively for reporting periods beginning after December 15, 2015. The Company early adopted the new guidance in the three months ended June 30, 2014. The adoption of this guidance did not have a significant impact on the Company's disclosures and the results of operations or financial position.

3. BUSINESS ACQUISITION

2014 Business Acquisition

On November 3, 2014, the Company completed the acquisition of Evolv Inc., ("Evolv"), a San Francisco based SaaS company. Evolv's platform has been developed with big data architecture and machine learning algorithms to perform predictive and prescriptive analytics and has broad data capturing capabilities that are used to help companies solve workforce management challenges. The acquisition was completed pursuant to a merger whereby Evolv became a wholly owned subsidiary of the Company. In connection with the merger, the Company paid total purchase consideration of approximately $43.4 million .

The acquisition has been accounted for under the acquisition method of accounting in accordance with the FASB's Accounting Standards Codification ("ASC") Topic 805, *Business Combinations* . As such, the Evolv assets acquired and liabilities assumed are recorded at their acquisition-date fair values. Acquisition-related transaction costs are not included as a component of consideration transferred, but are accounted for as an expense in the period in which the costs are incurred. Any excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed is allocated to goodwill, which is not deductible for tax purposes. Goodwill is attributable primarily to expected synergies and other benefits, including the acquired workforce, from combining Evolv with the Company. The Company acquired Evolv to allow clients to leverage the power of big data analytics to make better workforce decisions.

The Company’s allocation of the total purchase consideration as of November 3, 2014 is summarized below (in thousands):

Cash and cash equivalents	$ 107
Account receivables	979
Prepaid expenses and other current assets	194
Property and equipment	77
Intangibles - Developed technology	26,184
Goodwill	17,701
Total assets acquired	45,242
Accounts payable	712
Accrued expenses	619
Deferred revenue	477
Total liabilities assumed	1,808
Total purchase price	$ 43,434

The developed technology is being amortized on a straight-line basis over 3 years.

Unaudited Pro Forma Financial Information

The following table reflects the unaudited pro forma consolidated results of operations as if the Evolv acquisition had taken place on January 1, 2013, after giving effect to certain adjustments including the amortization of acquired intangible assets and the elimination of the Company’s and Evolv’s non-recurring acquisition-related expenses (in thousands):

	For the Years Ended December 31,	
	2014	2013
	Pro Forma	Pro Forma
Revenue	$ 268,771	$ 190,551
Net loss	$ (85,521)	$ (64,474)

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated as of January 1, 2013 nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma information does not include any adjustments for any restructuring activities, operating efficiencies or cost savings.

2012 Business Acquisition

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

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

The Company's allocation of the total purchase consideration as of April 5, 2012 is summarized below (in thousands):

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

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

Unaudited Pro Forma Financial Information

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

	For the Years Ended December 31,		
	2014	2013	2012
	Actual	Actual	Pro Forma
Revenue	$ 263,568	$ 185,129	$ 118,917
Net loss	$ (64,899)	$ (40,426)	$ (31,072)

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

4. NET LOSS PER SHARE

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

	For the Years Ended December 31,		
	2014	2013	2012
Net loss	$ (64,899)	$ (40,426)	$ (31,390)
Weighted-average shares of common stock outstanding	53,267	51,427	49,929
Net loss per share — basic and diluted	**$ (1.22)**	**$ (0.79)**	**$ (0.63)**

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

	December 31,		
	2014	2013	2012
Options to purchase common stock and restricted stock units	8,554	7,730	7,331
Convertible notes	4,682	4,682	—
Common stock warrants	4,682	4,682	—
Shares issued for purchase consideration held in escrow	—	—	16
Common stock subject to repurchase right	—	—	10
Other restricted common stock	—	12	31
Total shares excluded from net loss per share	**17,918**	**17,106**	**7,388**

Under the treasury stock method, the convertible notes and common stock warrants will have a dilutive impact on net earnings per share when the average stock price for the period exceeds the respective conversion prices and the Company has net income. The Company also entered into note hedge transactions ("Note Hedges") in connection with the convertible notes with respect to its common stock to minimize the impact of potential economic dilution upon conversion of the convertible notes. The Note Hedges were outstanding as of December 31, 2014 . Since the beneficial impact of the Note Hedges were anti-dilutive, they were excluded from the calculation of diluted net income (loss) per share. See Note 9 of the Notes to Consolidated Financial Statements.

5. INVESTMENTS

The Company's investments in available-for-sale marketable securities are made pursuant to its investment policy, which has established guidelines relative to the diversification of the Company's investments and their maturities, with the principle objective of capital preservation and maintaining liquidity that is sufficient to meet cash flow requirements.

The following is a summary of investments in marketable securities, including cash equivalents, as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014			
	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Money market funds	$ 90,569	$ —	$ —	$ 90,569
Corporate bonds	43,031	—	(42)	42,989
Agency bonds	64,210	1	(15)	64,196
U.S. treasury securities	12,000	—	(1)	11,999
	$ 209,810	$ 1	$ (58)	$ 209,753

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

As of December 31, 2014 , the Company's investment in corporate bonds, agency bonds and U.S. treasury securities had a weighted-average maturity date of approximately eight months . Unrealized gains and losses on investments were not significant, and the Company does not believe the unrealized losses represent other-than-temporary impairments as of December 31, 2014 . No marketable securities held have been in a continuous unrealized loss position for more than 12 months as of December 31, 2014 .

Strategic Investments

In June 2014, the Company made a $0.5 million investment in a debt security of a privately-held company. The Company accounted for this debt security using fair value accounting and the fair value was determined to be $0.5 million as of December 31, 2014 .

In September 2014, the Company made a $0.4 million investment in equity securities of a privately-held company. The Company is accounting for this investment using the cost method of accounting. This investment is subject to a periodic impairment review and is considered to be impaired when a decline in fair value is judged to be other-than-temporary. As of December 31, 2014 , the Company determined there was no impairment of this investment.

6. GOODWILL AND INTANGIBLE ASSETS

Finite-lived Intangibles

The Company has finite-lived intangible assets which are amortized over their estimated useful lives on a straight line basis. The following table presents the gross carrying amount and accumulated amortization of finite-lived intangible assets as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 29,984	$ (4,054)	$ 25,930	$ 3,800	$ (1,649)	$ 2,151
Customer relationships	2,400	(1,642)	758	2,400	(1,042)	1,358
Domains/trademarks/tradenames	320	(320)	—	320	(278)	42
Software license rights	1,654	(1,060)	594	1,654	(759)	895
Non-compete agreements	610	(610)	—	610	(424)	186
Total	$ 34,968	$ (7,686)	$ 27,282	$ 8,784	$ (4,152)	$ 4,632

In November 2014, the Company recorded additional finite-lived intangible assets totaling $26.2 million , related to developed technology from the acquisition of Evolv (see Note 3).

Total amortization expense from finite-lived intangible assets were $3.5 million , $2.3 million and $1.7 million for the years ended December 31, 2014 , 2013 and 2012 , respectively. Amortization expense of $2.7 million , $1.3 million and $1.0 million for the years ended December 31, 2014 , 2013 and 2012 , respectively, related to developed technology and software license rights was recorded in cost of revenue and the remainder in “Amortization of certain acquired intangible assets” in the accompanying Consolidated Statements of Operations.

The following table presents the Company’s estimate of remaining amortization expense for each of the five succeeding fiscal years for finite-lived intangible assets that existed at December 31, 2014 (in thousands):

2015	$ 10,568
2016	9,282
2017	7,419
2018	10
2019	3
Total	**$ 27,282**

Estimated remaining amortization expense of $10.0 million , $9.1 million , $7.4 million , $10,000 , and $3,000 will be recorded in cost of revenue for 2015 , 2016 , 2017 , 2018 , and 2019 , respectively. The remaining estimated amortization expense will be recorded in amortization of acquired intangible assets within operating expenses.

Goodwill

The following table presents the changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013 (in thousands):

Goodwill as of December 31, 2012	$	8,193
Adjustments		—
Goodwill as of December 31, 2013	$	8,193
Goodwill from Evolv acquisition		17,701
Goodwill as of December 31, 2014	**$**	**25,894**

7. OTHER BALANCE SHEET AMOUNTS

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

		December 31,			
	Useful Life	2014		2013	
Computer equipment and software	2 – 5 years	$	22,352	$	15,768
Furniture and fixtures	7 years		2,910		2,265
Leasehold improvements	2 – 6 years		8,453		4,190
Renovation in progress	n/a		703		954
			34,418		23,177
Less: accumulated depreciation and amortization			(12,994)		(8,741)
Total property and equipment, net		**$**	**21,424**	**$**	**14,436**

Depreciation expense for the years ended December 31, 2014 , 2013 and 2012 was $5.2 million , $3.2 million , $2.5 million , respectively. At December 31, 2014 and 2013 , property and equipment includes computer equipment and software under capital leases with a cost basis of $1.8 million and $2.8 million , respectively, and accumulated depreciation of $1.6 million and $2.0 million , respectively. Depreciation of computer equipment and software under capital leases was $0.7 million , $0.9 million , and $1.1 million for the years ended December 31, 2014 , 2013 and 2012 , respectively.

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

	December 31,			
	2014		2013	
Accrued bonuses	$	7,811	$	6,860
Accrued commissions		10,088		7,246
Other accrued expenses		11,577		8,182
Total accrued expenses	**$**	**29,476**	**$**	**22,288**

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities measured at fair value on a recurring basis include the following as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014				December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Cash equivalents	$ 90,569	$ 90,569	$ —	$ —	$ 65,700	$ 65,700	$ —	$ —
Corporate bonds	42,989	—	42,989	—	78,609	—	78,609	—
Agency bonds	64,196	—	64,196	—	121,316	—	121,316	—
U.S. treasury securities	11,999	—	11,999	—	—	—	—	—
Strategic investments	500	—	—	500	—	—	—	—
	$ 210,253	$ 90,569	$ 119,184	$ 500	$ 265,625	$ 65,700	$ 199,925	$ —

The Company's cash equivalents at December 31, 2014 and 2013 consisted of money market funds with original maturity dates of three months or less backed by U.S. Treasury Bills. Cash equivalents are classified as Level 1.

As of December 31, 2014 , corporate bonds, agency bonds and U.S. treasury securities were classified within Level 2 of the fair value hierarchy. The bonds were valued using information obtained from pricing services, which obtained quoted market prices from a variety of industry data providers, security master files from large financial institutions, and other third-party sources. The Company performed supplemental analysis to validate information obtained from its pricing services. As of December 31, 2014 , no adjustments were made to such pricing information.

Strategic Investments

The Company's investments in privately-held companies are shown in the accompanying Consolidated Balance Sheets in Long-term investments and accompanying Consolidated Statements of Cash Flows in Purchases of investments. The investment in debt securities is considered Level 3 in the fair value hierarchy as it has been valued using significant unobservable inputs or data from various valuation approaches and is measured each reporting period at fair value.

The following table presents a reconciliation of the investment in debt securities measured at fair value using significant unobservable inputs (Level 3) as of December 31, 2014 (in thousands):

Balance as of December 31, 2013	$ —
Additions	500
Balance as of December 31, 2014	**$ 500**

Senior Convertible Notes

The Company's senior convertible notes are shown in the accompanying Consolidated Balance Sheets at their original issuance value, net of unamortized discount, and are not re-measured to fair value each period. The approximate fair value of Company's convertible notes as of December 31, 2014 was $247.2 million . The fair value of the convertible notes was estimated on the basis of quoted market prices, which, due to limited trading activity, are considered Level 2 in the fair value hierarchy.

9. DEBT AND OTHER FINANCING ARRANGEMENTS

Senior Convertible Notes

In 2013, the Company issued senior convertible notes (the "Notes") raising gross proceeds of $253.0 million .

The Notes are governed by an Indenture, dated June 17, 2013 (the "Indenture"), between the Company and U.S. Bank National Association, as trustee. The Notes mature on July 1, 2018, unless earlier repurchased or converted, and bear interest at a rate of 1.50% per year payable semi-annually in arrears on January 1 and July 1 of each year, commencing January 1, 2014.

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

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

- during any calendar quarter after September 30, 2013, if the last reported sale price of common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the Notes for each trading day of that five consecutive trading day period was less than 98% of the product of the last reported sale price of common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events as defined in the Indenture.

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

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

In accounting for the Notes at issuance, the Company separated the Notes into debt and equity components pursuant to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The fair value of the debt component was estimated using an interest rate for nonconvertible debt, with terms similar to the Notes, excluding the conversion feature. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to interest expense over the term of the Notes using the interest method. The amount recorded to additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification. Upon issuance of the $253.0 million of Notes, the Company recorded $214.3 million to debt and $38.7 million to additional paid-in capital for the debt discount.

The Company incurred transaction costs of approximately $7.3 million related to the issuance of the Notes. In accounting for these costs, the Company allocated the costs to the debt and equity components in proportion to the allocation of proceeds from the issuance of the Notes to such components. Transaction costs allocated to the debt component of $6.2 million are deferred as an asset and amortized to interest expense over the term of the Notes. The transaction costs allocated to the equity component of $1.1 million were recorded to additional paid-in capital. The transaction costs allocated to the debt component were recorded as deferred offering costs in other noncurrent assets.

The net carrying amount of the liability component of the Notes as of December 31, 2014 consists of the following (in thousands):

Principal amount	$	253,000
Unamortized debt discount		(27,906)
Net carrying value	$	225,094

The following table presents the interest expense recognized related to the Notes for year ended December 31, 2014 and 2013 (in thousands):

	Year Ended December 31, 2014	Year Ended December 31, 2013
Contractual interest expense at 1.5% per annum	$ 3,795	$ 2,045
Amortization of debt issuance costs	1,145	591
Accretion of debt discount	7,129	3,681
Total	$ 12,069	$ 6,317

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

Note Hedges

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

Warrants

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

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

Silicon Valley Bank

In June 2013, concurrent with the issuance of the Notes, the Company repaid its total outstanding borrowings under the SVB Credit Facility in the amount of $3.0 million . The SVB Credit Facility was extinguished upon the June 2013 repayment.

Other Debt Arrangements

The Company has entered into other debt arrangements with finance companies to finance the purchase of property, equipment and software. As of December 31, 2014 and 2013 , total amounts outstanding under these arrangements were $0.4 million and $0.9 million , respectively. Principal and interest is generally due monthly, through 2015.

Maturities of outstanding borrowings under the other debt arrangements as of December 31, 2014 were as follows for each year ending December (in thousands):

2015	$ 351
Total current debt	$ 351

The weighted-average interest rate on borrowings for the years ended December 31, 2014 and 2013 was 6.9% and 7.0% , respectively.

The estimated fair value of the Company's debt was $0.4 million and $0.9 million at December 31, 2014 and 2013 , respectively. The fair value was estimated based on discounted cash flow analyses using appropriate current discount rates, taking into consideration the particular terms of the borrowing agreements, at the end of the respective periods. The carrying value of the Company's line of credit was considered to approximate fair market value, as the interest rates of these instruments were based predominantly on variable reference rates. These estimates involve considerable judgment and changes in those assumptions could significantly affect the estimates.

Although the Company has determined the estimated fair value amounts using commonly accepted valuation methodologies, judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on information available as of December 31, 2014 and 2013 . These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

10. CAPITALIZATION

As of December 31, 2014 , the Company's authorized stock consists of 1,000,000,000 shares of common stock, par value of $0.0001 per share, and 50,000,000 shares of preferred stock, par value of $0.0001 per share. No shares of preferred stock were issued or outstanding at December 31, 2014 and 2013.

11. STOCK-BASED AWARDS

1999 and 2009 Plans

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

At December 31, 2014 , no shares are issuable under the 1999 and 2009 Plans.

2010 Plan

In March 2011, upon the completion of the Company's IPO, the Company adopted the 2010 Plan and determined that it will no longer grant any additional awards under the 1999 Plan and the 2009 Plan. However, the 1999 Plan and the 2009 Plan continue to govern the terms and conditions of the outstanding awards previously granted under each respective plan. Upon the adoption of the 2010 Plan, the maximum aggregate number of shares issuable thereunder was 3,680,480 shares, plus (i) any shares subject to stock options or similar awards granted under the 1999 Plan or 2009 Plan prior to March 16, 2011 that expire or otherwise terminate without having been exercised in full and (ii) shares issued pursuant to awards granted under the 1999 Plan and 2009 Plan that are forfeited to or repurchased by the Company after March 16, 2011, with the maximum number of shares to be added to the 2010 Plan from the 1999 Plan and 2009 Plan equal to 5,614,369 shares of common stock. In addition, the number of shares available for issuance under the 2010 Plan will be annually increased on the first day of each fiscal year beginning with 2012, by an amount equal to the lesser of 5,500,000 shares, 4.5% of the outstanding shares of the Company's common stock as of the last day of the immediately preceding fiscal year, or such other amount as the Company's Board of Directors determines.

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

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

Stock Options

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

Restricted Stock Awards

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

Restricted Stock Units

The Company may also grant restricted stock units under the 2010 Plan. The fair value of each restricted stock unit granted is equal to the grant date fair market value of the Company's common stock. The payment of restricted stock units may be in the form of cash, shares, or in a combination thereof, as determined by the Board of Directors. During 2014 , the Company granted 547,426 time based restricted stock units under the 2010 Plan.

Stock Appreciation Rights

The Company may also grant stock appreciation rights under the 2010 Plan. Stock appreciation rights allow the recipient to receive the appreciation in the price of the Company's common stock between the date of grant and the exercise date. The payment of stock appreciation rights may be in the form of cash, shares, or in a combination thereof, as determined by the Board of Directors. As of December 31, 2014 , no stock appreciation rights had been granted under the 2010 Plan.

Performance Units/Performance Shares

The Company may also grant performance units and performance shares under the 2010 Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals for a predetermined period, established by the Board of Directors, are achieved or the awards otherwise vest. The fair value of each performance unit and performance share awarded is equal to the grant date fair market value of the Company's common stock when the performance goals are defined solely by reference to the Company's own operations. The fair value of each performance unit and performance award that contain performance goals tied to performance of the Company's common stock is estimated using a Monte-Carlo simulation. The payment of performance units and performance shares may be in the form of cash, shares, or a combination thereof, as determined by the Board of Directors.

Under the 2010 Plan, 2,184,168 shares remained available for issuance, at December 31, 2014 .

Stock Options

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2013	7,127	$ 23.07	8.1	$ 215,549
Granted	2,209	44.16		
Exercised	(1,141)	10.63		
Forfeited	(449)	38.23		
Outstanding, December 31, 2014	7,746	30.04	7.8	77,498
Exercisable at December 31, 2014	3,855	19.38	6.8	67,749
Vested and expected to vest at December 31, 2014	7,602	$ 29.84	7.8	$ 77,208

The following table summarizes information about stock options, which contain only service conditions, under the Company's equity incentive plans at December 31, 2014 (in thousands except term information):

	Options Outstanding at December 31, 2014		Options Exercisable at December 31, 2014	
	Number of Options	Weighted Average Remaining Contractual Term (in years)	Number of Options	Weighted Average Remaining Contractual Term (in years)
Range of Exercise Prices				
$0.34 to $1.65	424	4.6	424	4.6
$5.93 to $8.88	953	5.9	951	5.9
$12.54 to $15.41	497	6.7	374	6.7
$16.24 to $18.82	596	7.0	499	7.0
$20.85 to $23.94	855	7.4	595	7.4
$27.55 to $31.44	411	8.3	231	7.8
$32.92 to $36.15	658	8.5	216	8.2
$38.03 to $45.76	1,526	9.0	315	8.5
$46.20 to $56.05	1,826	9.1	250	8.7
	7,746	7.8	3,855	6.8

The total intrinsic value of options exercised during the years ended December 31, 2014 , 2013 and 2012 was $42.9 million , $57.7 million , and $23.9 million , respectively. The total grant date fair value of stock options vested during the years ended December 31, 2014 , 2013 and 2012 was $27.6 million , $15.3 million , and $7.5 million , respectively. The Company recognized compensation expense related to stock options of $28.8 million , $17.2 million , and $10.3 million for the years ended December 31, 2014 , 2013 , and 2012 , respectively.

Unrecognized compensation expense relating to stock options was $69.1 million at December 31, 2014 which is expected to be recognized over a weighted-average period of 2.8 years.

The aggregate grant date fair value of stock options granted for the years ended December 31, 2014 , 2013 and 2012 was $48.0 million , $51.5 million , and $28.4 million , respectively.

Restricted Stock Awards

In connection with the acquisition of Sonar, the Company issued 31,164 restricted shares of its common stock, valued at approximately $0.7 million , to certain Sonar shareholders who also became employees of the company post-acquisition. The vesting of the restricted shares is subject to continued employment, and the fair value of the restricted shares is recognized as a post-acquisition compensation expense over the 2 year vesting period (see Note 3). As of December 31, 2014 , all 31,164 shares were vested.

Restricted Stock Units

Restricted stock unit activity for the year ended December 31, 2014 under the Company's equity incentive plans is summarized as follows (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares subject to restricted stock units outstanding at December 31, 2013	382	$ 27.81
Granted	548	37.05
Forfeited	(17)	36.47
Vested	(202)	20.05
Nonvested shares subject to restricted stock units outstanding at December 31, 2014	**711**	**$ 36.91**

The Company recognized compensation expense related to restricted stock units of $5.7 million , $3.4 million and $1.7 million for the years ended December 31, 2014 , 2013 and 2012 , respectively. Unrecognized compensation expense related to nonvested restricted stock units was $22.0 million at December 31, 2014 , which is expected to be recognized as expense over the weighted-average period of 3.3 years.

Performance Based Restricted Stock Units

In March 2014, the Company granted performance-based restricted stock units. The number of shares of the Company's common stock issuable upon the vesting of these awards is based upon (a) the Company meeting certain revenue targets by December 31, 2014, and (b) the recipient continuing to provide service through each measurement date, as defined in the agreement applicable to the award. The awards generally vest over a three year period and have a term of 10 years. The Company estimated the grant date fair value for each target level at the grant date and is recognizing stock-based compensation over the vesting period using a graded vesting model based upon the revenue target that is probable of being achieved. The maximum number of shares of the Company's common stock issuable upon vesting of these restricted stock units should the maximum target level become probable is 69,000 . In September 2014, based on current and forecasted sales and service delivery levels, the Company determined that the revenue target would not be met. As such, the Company recorded a reversal of $0.7 million of previously recorded compensation expense during the year ended December 31, 2014 .

In July 2014, the Company granted additional performance-based restricted stock units. The number of shares of the Company's common stock issuable upon the vesting of this performance-based restricted stock award is based upon (a) the performance of the Company's stock price relative to a certain independent market index, and (b) the recipient continuing to provide service through the end of the three year term of the award. Achievement of the maximum performance level would result in the issuance of 60,900 shares. The Company has used a Monte Carlo simulation to estimate the fair value of this award which factors in the probability of the award vesting. The grant date fair value of the award was $1.8 million , which will be recognized ratably over the three year term of the award.

The Company recognized compensation expense related to performance based awards of $0.7 million , $0.3 million and $0.4 million for the years ended December 31, 2014 , 2013 and 2012 . Unrecognized compensation expense related to nonvested performance based options and restricted stock units was $1.5 million at December 31, 2014 , based on the probable performance target at that date, which is expected to be recognized as expense over the weighted-average period of 2.5 years.

Stock-Based Compensation

Stock-based compensation expense related to stock options, restricted stock units, restricted stock awards and performance-based restricted stock units is included in the following line items in the accompanying Consolidated Statement of Operations for the years ended December 31, 2014 , 2013 , and 2012 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Cost of revenue	$ 2,669	$ 2,207	$ 1,660
Sales and marketing	18,364	9,866	3,982
Research and development	3,551	2,052	949
General and administrative	9,096	6,715	5,616
Total	**$ 33,680**	**$ 20,840**	**$ 12,207**

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

12. INCOME TAXES

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

	Years Ended December 31,		
	2014	2013	2012
United States	$ (59,249)	$ (36,821)	$ (20,173)
Foreign	(4,795)	(3,733)	(12,006)
Loss before provision for income taxes	**$ (64,044)**	**$ (40,554)**	**$ (32,179)**

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

	Years Ended December 31,		
	2014	2013	2012
Current income tax provision:			
Federal	$ —	$ —	$ —
State	40	117	—
Foreign	822	620	176
Total current income tax provision	862	737	176
Deferred income tax benefit:			
Federal	—	—	—
State	—	—	—
Foreign	(7)	(865)	(965)
Total deferred income tax benefit	(7)	(865)	(965)
Total income tax provision (benefit)	**$ 855**	**$ (128)**	**$ (789)**

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

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

	Years Ended December 31,		
	2014	2013	2012
U.S. Federal tax benefit at statutory rates	$ (21,795)	$ (13,784)	$ (10,941)
State income taxes, net of federal tax benefit	(2,013)	(415)	(60)
Foreign rate differential	734	1,354	1,008
Stock based compensation	4,121	2,039	1,360
Other permanent differences	941	410	654
Other	(82)	76	(194)
Valuation allowance	18,949	10,192	7,384
Total income tax (benefit) provision	**$ 855**	**$ (128)**	**$ (789)**

Major components of the Company's deferred tax assets (liabilities) at December 31, 2014 and 2013 are as follows (in thousands):

	December 31,	
	2014	2013
Deferred tax assets:		
Accrued expenses	$ 1,795	$ 2,029
Long-lived intangible assets and fixed assets — basis difference	585	5,710
Net operating loss carryforwards	63,438	33,823
Stock-based compensation	8,630	4,818
Deferred revenue	1,532	1,905
Convertible note hedge	13,913	16,705
Other	715	452
Total deferred tax assets	90,608	65,442
Valuation allowance	(73,906)	(48,558)
Deferred tax assets, net of valuation allowance	16,702	16,884
Deferred tax liabilities:		
Prepaid expenses and deferred commissions	(5,940)	(3,613)
Convertible note discount	(10,511)	(13,028)
Other	(121)	(120)
Total deferred tax liabilities	(16,572)	(16,761)
Net deferred tax assets (liabilities)	**$ 130**	**$ 123**

At December 31, 2014 , the Company had federal, state and foreign net operating losses of approximately $244.4 million , $221.6 million and $24.1 million , respectively. The federal net operating loss carryforward will begin expiring in 2019, the state net operating loss carryforward began expiring in 2014, and the foreign net operating loss has an unlimited carryforward period. The Internal Revenue Code of 1986, as amended, imposes substantial restrictions on the utilization of net operating losses in the event of an "ownership change" of a corporation. Accordingly, a company's ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382 ("IRC Section 382"). Events which may cause limitations in the amount of the net operating losses that the Company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. Due to the effects of historical equity issuances, the Company has determined that the future utilization of a portion of its net operating losses is limited annually pursuant to IRC Section 382. The Company has determined that none of its net operating losses will expire because of the annual limitation. The Company acquired federal and state R&D credits as a result of the Evolv acquisition in the amounts of $0.4 million and $0.5 million , respectively. The federal R&D credit will begin the expire in 2030; the state credit has indefinite carryforward.

The Company has recorded a full valuation allowance against its otherwise recognizable United States, United Kingdom, New Zealand, Hong Kong and Brazil deferred income tax assets as of December 31, 2014 . Management has determined, after evaluating all positive and negative historical and prospective evidence, that it is more likely than not that these assets will not be realized. The net increase to the valuation allowance of $25.3 million , $14.5 million and $7.4 million for the years ended December 31, 2014 , 2013 and 2012 , respectively, was primarily due to additional net operating losses generated by the Company, net operating losses from the acquisition of Evolv and basis differences in long-lived assets.

The Company has excluded excess windfall tax benefits resulting from stock option exercises as components of the Company's gross deferred tax assets and corresponding valuation allowance disclosures, as tax attributes related to such windfall tax benefits should not be recognized until they result in a reduction of taxes payable. The tax effected amount of gross unrealized net operating loss carryforwards, and their corresponding valuation allowances resulting from stock option exercises was $33.9 million at December 31, 2014 ; the corresponding gross amount is $91.9 million . When realized, excess windfall tax benefits are credited to additional paid-in capital. The Company follows the with-and-without allocation approach to determine when such net operating loss carryforwards have been realized.

Deferred income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries because the Company's practice and intent is to permanently reinvest these earnings. The cumulative amount of such undistributed earnings was $2.1 million and $0.9 million at December 31, 2014 and December 31, 2013 , respectively. Any future distribution of these non-U.S. earnings may subject the Company to both U.S. federal and state income taxes, as adjusted for tax credits, and foreign withholding taxes that the Company estimates would be $177,000 and $125,000 at December 31, 2014 and 2013 , respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2014 , 2013 , and 2012 is as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Balance at January 1	$ 276	$ 276	$ 276
Additions for tax positions related to the current year	—	—	—
Balance at December 31	**$ 276**	**$ 276**	**$ 276**

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

The Company's policy is to classify interest and penalties on uncertain tax positions as a component of tax expense. An insignificant amount of interest and penalties on unrecognized tax benefits were accrued during the 2014 tax year. The amount of accrued interest and penalties on unrecognized tax benefits was insignificant, as of December 31, 2014 and 2013 . The Company does not expect the change in uncertain tax positions to have a material impact on its financial position, results of operations or liquidity. The recognition of previously unrecognized tax benefits on uncertain positions would result in a $0.4 million tax benefit. The Company does not expect any significant increases or decreases to its unrecognized tax benefits within the next twelve months.

The Company is subject to United States federal income tax as well as to income tax in multiple state and foreign jurisdictions, including the United Kingdom. Federal income tax returns of the Company are subject to IRS examination for the 2011 through 2014 tax years. State income tax returns are subject to examination for the 2010 through 2014 tax years. Foreign income tax returns are subject to examination for the 2007 through 2014 tax years.

13. GEOGRAPHIC INFORMATION

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

	Years Ended December 31,		
	2014	2013	2012
Revenue			
United States	$ 180,834	$ 128,983	$ 81,837
United Kingdom	28,938	19,448	12,930
All other countries	53,796	36,698	23,147
Total revenue	**$ 263,568**	**$ 185,129**	**$ 117,914**

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

	December 31,	
	2014	2013
Property and equipment, net		
United States	$ 16,990	$ 10,455
United Kingdom	2,802	3,185
All other countries	1,632	796
Total property and equipment, net	**$ 21,424**	**$ 14,436**

14. 401(K) SAVINGS PLAN

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

The Company incurred approximately $1.3 million , $0.8 million and $0.3 million of matching contribution expenses related to the Plan during the years ended December 31, 2014 , 2013 and 2012, respectively.

15. COMMITMENTS AND CONTINGENCIES

Leases

The Company has various non-cancelable operating leases for its offices and its managed hosting facilities and services. These leases expire at various times through 2019. Certain lease agreements contain renewal options, rent abatement, and escalation clauses. The Company recognizes rent expense on a straight-line basis over the lease term, commencing when the Company takes possession of the property. Certain of the Company's office leases entitle the Company to receive a tenant allowance from the landlord. The Company records tenant allowances as a deferred rent credit, which the Company amortizes on a straight-line basis, as a reduction of rent expense, over the term of the underlying lease. Total rent expense under operating leases was approximately $5.7 million , $4.1 million , $3.2 million for the years ended December 31, 2014 , 2013 and 2012 , respectively. The Company finances the purchase of equipment under capital lease arrangements and other debt arrangements (See Note 9).

Future minimum lease payments under non-cancelable operating and capital leases at December 31, 2014 are as follows (in thousands):

	Operating Leases	Capital Leases
2015	$ 5,852	$ 239
2016	7,233	—
2017	7,046	—
2018	7,215	—
2019	581	—
Total minimum lease payments	$ 27,927	239
Less: Amounts representing interest		(3)
Present value of capital lease obligations		236
Less: Current portion		(236)
Long-term portion of capital lease obligations		$ —

Letters of Credit

During 2013, the Company amended a standby letter of credit in association with its building lease and signed a standby letter of credit for a contractual arrangement in Israel. In addition, the Company maintains standby letters of credit in association with other contractual arrangements. Total letters of credit outstanding at December 31, 2014 was $1.5 million .

Other Commitments

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

In November 2014, the Company assumed a hosting service agreement as part of the Evolv acquisition. The Company is obligated to pay remaining fees under this agreement of $0.8 million in 2015 and $0.7 million in 2016.

As of December 31, 2014 , the Company had agreements with various third party service providers whereby the Company has committed to assign certain dollar amounts or hours of professional service projects related to implementation and other services for clients of the Company's Enterprise and Mid-Market solution. In aggregate, these estimated commitments total approximately $18.4 million in 2015, $7.2 million in 2016, $5.9 million in 2017 and $5.6 million in each of 2018 and 2019.

Guarantees and Indemnifications

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

Litigation

During 2012, the Company received an unfavorable ruling in arbitration related to an employment matter. Based on this ruling, the Company estimated the probable loss for this matter, including both the award and estimated plaintiff attorneys' fees, to be approximately $2.6 million and accrued this amount within other current liabilities. In August 2014, the matter was settled, and no further obligation has resulted from the final settlement of $2.6 million .

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

Taxes

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

16. RELATED PARTY TRANSACTIONS

In 2010, the Cornerstone OnDemand Foundation, or the Foundation, was formed to empower communities in the United States and internationally by increasing the impact of the non-profit sector through the utilization of talent management technology including the Company's Enterprise and Mid-Market solution. The Company's Chief Executive Officer is on the Board of Directors of the Foundation. The Company does not direct the Foundation's activities, and accordingly, the Company does not consolidate the Foundation's statement of activities with its financial results. During the current year, the Company has provided at no charge certain resources to the Foundation, with approximate value of $2.2 million .

During June 2010, an executive officer of an accounting software company joined the Company's Board of Directors. During May 2012, an executive officer of a travel and expense management software company joined the Company's Board of Directors. For the years ended December 31, 2014 , 2013 and 2012 , the Company recorded $0.8 million , $0.5 million and $0.3 million , respectively, in expenses related to the use of the accounting and travel and expense software from companies whose executive officers served on the Company's Board of Directors during those years.

17. SUBSEQUENT EVENTS

During January and February 2015, the Compensation Committee of the Company's Board of Directors granted stock options to purchase 14,110 shares of common stock at a weighted-average exercise price of $34.28 per share. The stock options vest over four years . During January and February 2015, the Board of Directors granted restricted stock units for 147,180 shares of common stock which vest annually over four years.

During January and February 2015, the Company entered into operating leases with commitments of approximately $0.5 million in 2015, $0.3 million in 2016 and $0.1 million in 2017.

The Compensation Committee of the Company's Board of Directors also granted additional performance-based restricted stock units during December 2014, in which the terms were finalized in February 2015. Achievement of the probable target level would result in the issuance of 535,000 shares of the Company's common stock upon the vesting of the restricted stock units and achievement of the maximum target would result in the issuance of 1,070,000 shares of the Company's common stock upon the vesting of the restricted stock units. The performance-based restricted stock units will be fully vested after three years.

18. SELECTED QUARTERLY DATA (UNAUDITED)

The following unaudited quarterly consolidated statements of operations for each of the quarters in the years ended December 31, 2014 and 2013 have been prepared on a basis consistent with the Company's audited annual financial statements and include, in the opinion of management, all normal recurring adjustments necessary for the fair statement of the financial information contained in these statements.

	Quarter Ended							
	(in thousands, except per share data)							
	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014
Revenue	$ 37,657	$ 44,346	$ 48,270	$ 54,856	$ 57,409	$ 61,468	$ 68,318	$ 76,373
Cost of revenue	11,252	13,164	13,644	15,488	17,404	17,409	19,374	23,497
Gross profit	26,405	31,182	34,626	39,368	40,005	44,059	48,944	52,876
Operating expenses:								
Sales and marketing	23,010	26,274	28,601	31,852	35,139	39,608	41,512	46,293
Research and development	4,419	5,232	5,716	5,893	6,883	6,900	7,552	9,283
General and administrative	8,566	7,530	8,261	9,215	10,454	10,455	9,576	11,317
Amortization of certain acquired intangible assets	251	251	251	251	251	213	211	153
Total operating expenses	36,246	39,287	42,829	47,211	52,727	57,176	58,851	67,046
Loss from operations	(9,841)	(8,105)	(8,203)	(7,843)	(12,722)	(13,117)	(9,907)	(14,170)
Other income (expense):								
Interest income (expense) and other income (expense), net	(92)	(714)	(2,747)	(3,009)	(2,915)	(3,315)	(4,226)	(3,672)
Loss before income tax (provision) benefit	(9,933)	(8,819)	(10,950)	(10,852)	(15,637)	(16,432)	(14,133)	(17,842)
Income tax (provision) benefit	(1)	136	(104)	97	(153)	(200)	(178)	(324)
Net loss	$ (9,934)	$ (8,683)	$ (11,054)	$ (10,755)	$ (15,790)	$ (16,632)	$ (14,311)	$ (18,166)
Net loss per share, basic and diluted	$ (0.20)	$ (0.17)	$ (0.21)	$ (0.21)	$ (0.30)	$ (0.31)	$ (0.27)	$ (0.34)
Weighted average common shares outstanding, basic and diluted	50,798	51,153	51,544	52,185	52,726	53,197	53,423	53,660

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014 , the end of the period covered by this Annual Report on Form 10-K. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

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

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

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

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2014 . In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* . Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2014 .

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which appears in Item 8 of this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As noted in Note 3 to our Consolidated Financial Statements, we acquired Evolv Inc. on November 3, 2014. During the year ended December 31, 2014, we are in the process of incorporating our internal control over financial reporting into Evolv Inc.

Item 9B. *Other Information*

Not applicable.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this item will be included in our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 , and is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by this item will be included in our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 , and is incorporated herein by reference.

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

The information required by this item will be included in our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 , and is incorporated herein by reference.

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

The information required by this item will be included in our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 , and is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

The information required by this item will be included in our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 , and is incorporated herein by reference.

With the exception of the information incorporated in Items 10, 11, 12, 13, and 14 of this Annual Report on Form 10-K, our Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2014 is not deemed “filed” as part of this Annual Report on Form 10-K.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

Documents filed as part of this report are as follows:

1. Consolidated Financial Statements:

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

2. Financial Statement Schedules:

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

3. Exhibits:

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2015 .

CORNERSTONE ONDEMAND, INC.

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

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Adam L. Miller **Adam L. Miller**	President, Chief Executive Officer and Director (principal executive officer)	February 27, 2015
/s/ Perry A. Wallack **Perry A. Wallack**	Chief Financial Officer (principal financial and accounting officer)	February 27, 2015
/s/ R. C. Mark Baker **R. C. Mark Baker**	Director	February 27, 2015
/s/ Harold W. Burlingame **Harold W. Burlingame**	Director	February 27, 2015
/s/ James McGeever **James McGeever**	Director	February 27, 2015
/s/ Joseph Payne **Joseph Payne**	Director	February 27, 2015
/s/ Kristina Salen **Kristina Salen**	Director	February 27, 2015

Exhibits and Financial Statements

Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
2.1	Amended and Restated Share Purchase Agreement, dated as of April 5, 2012, by and among the Registrant, Dolphin Acquisition Limited, Sonar Limited, the Company Stockholders (as defined therein), and, with respect to Article III only, the Stockholder Representative (as defined therein). The schedules and exhibits referenced in the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.	10-Q	001-35098	2.1	May 15, 2012
2.2	Agreement and Plan of Merger, dated as of October 7, 2014, by and among the Registrant, Evolv Inc., Data Acquisition Sub, Inc. and, with respect to Article VII, Article VIII, Article IX and Article X thereof only, the Escrow Representative (as defined therein) and U.S. National Bank Association as Escrow Agent (as defined therein). The schedules and exhibits referenced in the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.				
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	S-1/A	333-169621	3.2	November 9, 2010
3.2	Amended and Restated Bylaws of the Registrant.	S-1/A	333-169621	3.4	November 9, 2010
4.1	Indenture between the Registrant and U.S. Bank National Association, dated as of June 17, 2013.	8-K	001-35098	4.1	June 17, 2013
10.1*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1/A	333-169621	10.1	December 17, 2010
10.2*	The Registrant's 1999 Stock Plan, including the form of stock option agreement, as amended and currently in effect.	S-1	333-169621	10.2	September 29, 2010
10.3*	The Registrant's 2009 Equity Incentive Plan, including forms of stock option agreements, as currently in effect.	S-1	333-169621	10.3	September 29, 2010
10.3A*	Form of Restricted Stock Unit Award Agreement under 2009 Equity Incentive Plan.	S-1/A	333-169621	10.3A	December 17, 2010
10.4*	The Registrant's 2010 Equity Incentive Plan, including form of stock option agreement.	S-1/A	333-169621	10.4	December 17, 2010
10.5*	The Registrant's 2010 Employee Stock Purchase Plan.	S-1/A	333-169621	10.5	December 17, 2010
10.6*	Employment Agreement between the Registrant and Adam Miller, dated as of November 8, 2010.	S-1/A	333-169621	10.6	November 9, 2010
10.7*	Employment Agreement between the Registrant and Perry Wallack, dated as of November 8, 2010.	S-1/A	333-169621	10.7	November 9, 2010
10.8*	Employment Agreement between the Registrant and Mark Goldin, dated as of May 24, 2010.	S-1	333-169621	10.11	September 29, 2010
10.9*	Amended and Restated Employment Agreement between the Registrant and David J. Carter, dated as of November 8, 2010.	S-1/A	333-169621	10.9	November 9, 2010

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.10A*	2011 Sales Commission Plan between the Registrant and David J. Carter.	S-1/A	333-169621	10.9C	February 11, 2011
10.10B*	2012 Sales Commission Plan between the Registrant and David J. Carter.	10-Q	001-35098	10.2	November 14, 2012
10.10C*	2013 Sales Commission Plan between the Registrant and David J. Carter.	10-Q	001-35098	10.2	August 7, 2013
10.10D*	2014 Sales Commission Plan between the Registrant and David J. Carter.	10-Q	001-35098	10.1	August 7, 2014
10.11*	Amended and Restated Unlimited Term Employment Contract between the Registrant and Vincent Belliveau.	S-1/A	333-169621	10.10	February 11, 2011
10.11A*	2011 Sales Commission Plan between the Registrant and Vincent Belliveau.	S-1/A	333-169621	10.10C	February 11, 2011
10.11B*	2012 Sales Commission Plan between the Registrant and Vincent Belliveau.	10-Q	001-35098	10.1	November 14, 2012
10.11C*	2013 Sales Commission Plan between the Registrant and Vincent Belliveau.	10-Q	001-35098	10.3	August 7, 2013
10.11D*	2014 Sales Commission Plan between the Registrant and Vincent Belliveau.	10-Q	001-35098	10.2	August 7, 2014
10.12*	Form of Change of Control Severance Agreement between the Registrant and certain of its executive officers	10-Q	001-35098	10.4	August 7, 2013
10.13*	Description of 2014 Executive Bonus Plan	8-K	001-35098	n/a	April 8, 2014
10.14	Master Service Agreement (United States) between the Registrant and Equinix Operating Co., Inc., dated as of November 6, 2009.	S-1	333-169621	10.17	September 29, 2010
10.15	Master Service Agreement (United Kingdom) between the Registrant and Equinix (United Kingdom) Limited, dated as of November 4, 2009.	S-1	333-169621	10.18	September 29, 2010
10.16	Office Lease between Water Garden Realty Holding LLC and the Registrant, dated as of November 30, 2011	10-K	001-35098	10.16	March 6, 2012
10.17	First Amendment to the Office Lease between Water Gardens Realty Holding LLC and the Registrant, dated as of April 24, 2012	10-Q	001-35096	10.1	May 9, 2013
10.18	Second Amendment to the Office Lease between Water Garden Realty Holding LLC and the Registrant, dated as of February 28, 2013	10-Q	001-35096	10.2	May 9, 2013
21.1	List of subsidiaries of the Registrant				

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
23.1	Consent of PricewaterhouseCoopers LLP				
24.1	Power of Attorney (contained in the signature page to this Annual Report)				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.				
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.				
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				

* Indicates a management contract or compensatory plan or arrangement.

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

Exhibit 2.2

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

CORNERSTONE ONDEMAND, INC.,

EVOLV INC.,

DATA ACQUISITION SUB, INC.,

AND

WITH RESPECT TO ARTICLES Article VII, Article VIII, Article IX AND Article X ONLY,

FORTIS ADVISORS LLC, AS ESCROW REPRESENTATIVE,

AND

U.S. BANK NATIONAL ASSOCIATION, AS ESCROW AGENT

Dated as of October 7, 2014

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* * * * *

THIS AGREEMENT AND PLAN OF MERGER (this " **Agreement** ") is made and entered into as of October 7, 2014 by and among Cornerstone OnDemand, Inc., a Delaware corporation (" **Parent** "), Evolv Inc., a Delaware corporation (the " **Company** "), Data Acquisition Sub, Inc., a Delaware corporation and a wholly−owned subsidiary of Parent (" **Sub** "), and, with respect to **Article VII** , **Article VIII** , **Article IX** and **Article X** hereof only, Fortis Advisors LLC, a Delaware limited liability company, as escrow representative (the " **Escrow Representative** "), and U.S. Bank National Association as Escrow Agent.

RECITALS

A. The boards of directors of each of Parent, Sub and the Company believe it is advisable and in the best interests of each corporation and their respective stockholders that Parent acquire the Company through the statutory merger of Sub with and into the Company (the " **Merger** ") and, in furtherance thereof, have approved this Agreement and the Merger.

B. Pursuant to the Merger, among other things, and subject to the terms and conditions of this Agreement, at the Effective Time (as defined below) (i) all of the issued and outstanding shares of Company Common Stock (as defined below) shall be cancelled and extinguished without consideration, (ii) all of the issued and outstanding shares of Company Preferred Stock will be converted into the right to receive the consideration set forth herein, (iii) all of the Company Options (as defined below) shall be cancelled and extinguished, and (iv) all of the issued and outstanding Company Warrants (as defined below) or other securities convertible into or exchangeable for shares of Company Capital Stock shall be terminated.

C. The Company, on the one hand, and Parent and Sub, on the other hand, desire to make certain representations, warranties, covenants and other agreements in connection with the Merger.

D. Concurrently with the execution and delivery of this Agreement, and as a condition and inducement to Parent to enter into this Agreement, (i) each of the Key Stockholders (as defined below) has entered into and delivered to Parent a non−competition and non-solicitation agreement, in the form attached hereto as Exhibit A , to be effective as of the Closing Date (as defined below) (the " **Non−Competition Agreements** "); (ii) each of the Key Employees (as defined below) has entered into an "at will" employment arrangement with Parent or a subsidiary thereof, to be effective as of the Closing Date, pursuant to such Key Employee's execution of an offer letter and a proprietary information and inventions assignment agreement, each on Parent's standard form (collectively, the " **Key Employee Agreements** "); (iii) each of Michael Karbushev, Max Simkoff, Asif Qamar and Dennis Yen has entered into a change of control severance agreement with Parent, in the form attached hereto as Exhibit B , to be effective as of the Closing Date (the " **Parent Severance Agreements** "); and (iv) 80% of the Priority Service Providers (as defined below) have entered into an employment or independent contractor arrangement with Parent or a subsidiary of Parent, to be effective as of the Closing Date, pursuant to such Priority Service Provider's execution of either (i) a Parent Offer Letter (as defined below) and proprietary information and inventions assignment agreement or (ii) Parent Contractor Agreement (as defined below), as applicable.

E. Immediately following the execution and delivery of this Agreement by the parties hereto and as a material inducement to Parent and Sub to enter into this Agreement, the Company shall obtain and shall deliver to Parent a true, correct and complete copy of an executed Action by Written Consent (the " **Initial Stockholder Consent** "), evidencing the approval of this Agreement, the Merger, the Certificate Amendment (as defined below), and the other transactions contemplated hereby, in the form attached hereto as Exhibit C (the " **Stockholder Written Consent** "), signed by certain stockholders constituting the Requisite Stockholder Vote (as defined below), and each such stockholder shall have also

executed and delivered to Parent a joinder agreement in substantially the form attached hereto as Exhibit D (each, a " **Joinder Agreement** " and collectively, the " **Joinder Agreements** ").

AGREEMENT

NOW, THEREFORE, in consideration of the mutual agreements, covenants and other promises set forth herein, the mutual benefits to be gained by the performance thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, the parties hereby agree as follows:

ARTICLE I

THE MERGER

1.1 The Merger . At the Effective Time and subject to and upon the terms and conditions of this Agreement and the applicable provisions of the Delaware General Corporation Law (" **Delaware Law** "), Sub shall be merged with and into the Company, the separate corporate existence of Sub shall cease, and the Company shall continue as the surviving corporation and as a wholly−owned subsidiary of Parent. The surviving corporation after the Merger is sometimes referred to hereinafter as the " **Surviving Corporation** ."

1.2 Effective Time; Closing . Unless this Agreement is earlier terminated pursuant to **Section 8.1** hereof, the closing of the Merger (the " **Closing** ") will take place on a Business Day (as defined below) as promptly as practicable after the execution and delivery hereof by the parties hereto, but not later than one (1) Business Day following satisfaction or waiver of the conditions set forth in **Article VI** hereof, at the offices of Cornerstone OnDemand, Inc., 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, CA 90404, unless another time or place is mutually agreed upon in writing by Parent and the Company; *provided* , *however* , that the Closing shall not occur on a date that is during the last ten (10) Business Days prior to the last Business Day of a fiscal quarter of Parent. The date upon which the Closing actually occurs shall be referred to herein as the " **Closing Date** ." On the Closing Date, the parties hereto shall cause the Merger to be consummated by filing a Certificate of Merger, in substantially the form attached hereto as Exhibit E (the " **Certificate of Merger** "), with the Secretary of State of the State of Delaware, in accordance with the applicable provisions of Delaware Law (the time of the filing of such Certificate of Merger, or the time of effectiveness thereof that is specified therein, if different, shall be referred to herein as the " **Effective Time** ").

1.3 Effect of the Merger . At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all of the property, rights, privileges, powers and franchises of the Company and Sub shall vest in the Surviving Corporation, and all debts, Liabilities (as defined below) and duties of the Company and Sub shall become the debts, Liabilities and duties of the Surviving Corporation.

1.4 Certificate of Incorporation and Bylaws

(a) Unless otherwise determined by Parent prior to the Effective Time, the certificate of incorporation of the Surviving Corporation shall be amended and restated as of the Effective Time to be identical to the certificate of incorporation of Sub as in effect as of immediately prior to the Effective Time, until thereafter amended in accordance with Delaware Law and as provided in such certificate of incorporation; *provided, however* , that at the Effective Time, Article I of the certificate of incorporation of

the Surviving Corporation shall be amended and restated in its entirety to read as follows: "The name of the corporation is Evolv Inc."

(b) Unless otherwise determined by Parent prior to the Effective Time, the bylaws of the Surviving Corporation shall be amended and restated as of the Effective Time to be identical to the bylaws of Sub, as in effect as of immediately prior to the Effective Time, until thereafter amended in accordance with Delaware Law and as provided in the certificate of incorporation of the Surviving Corporation and such bylaws, except that all references to Sub in the bylaws of the Surviving Corporation shall be changed to references to "Evolv Inc."

1.5 Directors and Officers .

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(a) Directors of Surviving Corporation . Unless otherwise determined by Parent prior to the Effective Time, the directors of Sub as of immediately prior to the Effective Time shall be the directors of the Surviving Corporation immediately after the Effective Time, each to hold the office of a director of the Surviving Corporation in accordance with the provisions of Delaware Law and the certificate of incorporation and bylaws of the Surviving Corporation until their successors are duly elected and qualified.

(b) Officers of Surviving Corporation . Unless otherwise determined by Parent prior to the Effective Time, the officers of Sub as of immediately prior to the Effective Time shall be the officers of the Surviving Corporation immediately after the Effective Time, each to hold office in accordance with the provisions of the bylaws of the Surviving Corporation until their successors are duly appointed and qualified.

1.6 Definitions . For all purposes of this Agreement, the following terms shall have the following respective meanings:

" **Adjusted Net Equity Adjustment Amount** " shall mean (a) if the Adjusted Net Equity Amount is less than the Adjusted Net Equity Target, the amount by which the Adjusted Net Equity Amount is less than the Adjusted Net Equity Target (expressed as a negative number) or (b) if the Adjusted Net Equity Amount is greater than the Adjusted Net Equity Target, the amount by which the Adjusted Net Equity Amount is greater than the Adjusted Net Equity Target (expressed as a positive number).

" **Adjusted Net Equity Amount** " shall mean an amount equal to, as of the Closing, (a) all Current Assets of the Company less (b) all Current Liabilities of the Company.

" **Adjusted Net Equity Target** " shall be an amount equal to $(3,000,000).

" **Advisor Deal Bonuses** " shall mean the cash bonuses payable to the individuals and in the amounts set forth on **Schedule 1.6(c)(2)** .

" **Affiliate** " shall mean, with respect to the Company, a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company, including, without limitation, all directors and officers of the Company.

" **Aggregate Junior Preferred Consideration** " shall mean the result of (a) the Total Consideration less *(b)* the Series D Preference.

“ **Aggregate Junior Preferred Preference** ” shall mean the sum of (a) the Series A Preference, (b) the Series B Preference, and (c) the Series C Preference.

“ **Assumed Debt** ” shall mean up to $2,000,000, measured as of the Closing Date, of Indebtedness owed by the Company to Silicon Valley Bank pursuant to that certain Second Amended and Restated Loan and Security Agreement by and between the Company and Silicon Valley Bank, dated as of May 24, 2012, as amended by that certain First Amendment to Second Amended and Restated Loan and Security Agreement, dated as of on December 24, 2012, and that certain Second Amendment to Second Amended and Restated Loan and Security Agreement, dated as of February 19, 2014.

“ **Business Day(s)** ” shall mean each day that is not a Saturday, Sunday or other day on which Parent is closed for business or banking institutions located in San Francisco, California are authorized or obligated by law or executive order to close.

“ **Certificate Amendment** ” shall mean the amendment to the Company Certificate of Incorporation in the form attached hereto as Exhibit F .

“ **Certificates** ” shall mean the Closing Certificates and the Other Certificates.

“ **Closing Cash Amount** ” shall mean the amount of cash on hand owned by the Company as of the close of business on the day before the Closing Date.

“ **Closing Certificates** ” shall mean the certificates delivered pursuant to **Section 6.2(u)** (Certificate of Company) and **Section 6.2(v)** (Certificate of Secretary of the Company).

“ **Closing Indebtedness** ” shall mean Indebtedness of the Company (other than the Assumed Debt) as of immediately prior to the Closing (without giving effect to the payment or other discharge of any such Indebtedness in connection with the transactions contemplated hereby), unless such Indebtedness is repaid at Closing without further obligation through the use of funds that are both (a) not included as Current Assets in the calculation of the Adjusted Net Equity Amount and (b) not provided by Parent on behalf of the Company or any Company Stockholder.

“ **Closing Third-Party Payoff Amount** ” shall mean the amount of (i) the Assumed Debt, (ii) the Closing Indebtedness, (iii) the Company Third-Party Expenses, and (iv) the Executive Transaction Bonuses (in the case of (ii), (iii) and (iv), as set forth in the Closing Statement Certificate delivered to Parent at the Closing).

“ **Code** ” shall mean the Internal Revenue Code of 1986, as amended.

“ **Company Bridge Amount** ” shall mean all amounts (including principal and accrued and unpaid interest) that have been or may be loaned by certain of the Company Stockholders to the Company prior to the Closing pursuant to the purchase of convertible promissory notes under that certain Note Purchase Agreement by and among the Company and such Company Stockholders, dated September 26, 2014, as it may be amended from time to time.

“ **Company Bridge Interim Amount** ” shall mean the portion of the Company Bridge Amount (including principal and accrued and unpaid interest) that is incurred after the date hereof.

“ **Company Capital Stock** ” shall mean the Company Common Stock, the Company Preferred Stock and any other shares of capital stock, if any, of the Company, taken together.

“ **Company Common Stock** ” shall mean shares of common stock, par value $0.001 per share, of the Company.

“ **Company Junior Preferred Stock** ” shall mean shares of Company Series A Preferred Stock, Company Series B Preferred Stock, and Company Series C Preferred Stock.

“ **Company Optionholder** ” shall mean any Person holding Company Options.

“ **Company Options** ” shall mean all issued and outstanding options (including commitments to grant options, but excluding Company Warrants, if any) to purchase or otherwise acquire Company Capital Stock (whether or not vested) held by any Person.

“ **Company Preferred Stock** ” shall mean shares of Company Series A Preferred Stock, Company Series B Preferred Stock, Company Series C Preferred Stock, and Company Series D Preferred Stock.

“ **Company Privacy Policy** ” means each external or internal, past or present privacy policy or privacy- or security-related representation, obligation, or promise of the Company, including any policy, representation, obligation, or promise relating to: (i) the privacy of users of any website, product, or service operated by or on behalf of the Company or (ii) the collection, storage, hosting, disclosure, transmission, transfer, disposal, or other processing or security of any Customer Data or Personal Data.

“ **Company Series A Preferred Stock** ” shall mean shares of Series A Preferred Stock, par value $0.001 per share, of the Company.

“ **Company Series B Preferred Stock** ” shall mean shares of Series B Preferred Stock, par value $0.001 per share, of the Company.

“ **Company Series C Preferred Stock** ” shall mean shares of Series C Preferred Stock, par value $0.001 per share, of the Company.

“ **Company Series D Preferred Stock** ” shall mean shares of Series D Preferred Stock, par value $0.001 per share, of the Company.

“ **Company Stockholder** ” shall mean any holder of Company Capital Stock.

“ **Company Third-Party Expenses** ” shall mean the cash amount of Third-Party Expenses that are expected to be payable by the Company and estimated by the Company in good faith and based on reasonable assumptions as of the Closing Date as set forth in the Closing Statement Certificate to be delivered to Parent pursuant to **Section 1.8(a)(i)** of this Agreement.

“ **Company Transaction Expenses** ” shall mean severance (including any related statutory liabilities, but excluding any amounts of severance paid to Non-Continuing Service Providers in excess of the Non-Continuing Service Provider Severance Amounts that are hereafter committed in writing to be paid by Parent, which excess amounts shall be borne by Parent), change-of-control, golden parachute, management retention or similar payments of the Company resulting from the consummation of the Merger, including the Non-Continuing Service Provider PTO Amount, Executive Retention Bonuses, the Executive Transaction Bonuses, and the Employee Deal Bonuses, but excluding the Continuing Employee PTO Amount and the Advisor Deal Bonuses.

“ **Company Warrants** ” shall mean all issued and outstanding warrants to purchase Company Capital Stock.

“ **Continuing Contractor** ” shall mean each Target Service Provider who is offered an independent contractor arrangement with Parent or a subsidiary thereof, accepts such offer prior to the Closing, and remains an independent contractor of Parent or a subsidiary thereof as of the Closing.

“ **Continuing Employee** ” shall mean each Target Service Provider who is offered at-will employment with Parent or a subsidiary thereof, accepts such offer of at-will employment prior the Closing, and remains an employee of Parent or a subsidiary thereof as of the Closing.

“ **Continuing Employee PTO Amount** ” shall mean the amount of all vacation and/or paid time off that has been accrued but unused by any of the Continuing Employees as of the Closing.

“ **Contract** ” shall mean any mortgage, indenture, lease, contract, covenant, plan, insurance policy or other agreement, instrument, arrangement, obligation, understanding or commitment, permit, concession, franchise or license, whether oral or written.

“ **Current Assets** ” shall mean all current assets of the Company, as set forth on **Schedule 1.6(a)** , but shall exclude cash, cash equivalents and restricted cash and, for the avoidance of doubt, shall not include any Tax assets (other than the Xerox Receivable, if applicable).

“ **Current Cash Amount** ” shall mean the amount of cash on hand owned by the Company as of the close of business on the day before the date hereof.

“ **Current Liabilities** ” shall mean all current Liabilities of the Company, as set forth on **Schedule 1.6(b),** but shall exclude Indebtedness, Company Third-Party Expenses and Company Transaction Expenses and, for the avoidance of doubt, shall not include any Tax Liabilities.

“ **Customer Data** ” shall mean all text, data (including Personal Data), content or other material uploaded or otherwise transmitted by the Company’s customers to, or stored by the Company’s customers on, any Company Product.

“ **Dollars** ” or “ **$** ” shall mean United States Dollars.

“ **Employee Deal Bonuses** ” shall mean the cash bonuses payable to the individuals set forth on **Schedule 1.6(c)(1)** .

“ **Escrow Agent** ” shall mean U.S. Bank National Association, or another institution acceptable to Parent and the Escrow Representative.

“ **Escrow Amount** ” shall mean the sum of (i) the Stockholder Escrow Amount and (ii) the Transaction Bonus Escrow Amount.

“ **Excess Company Bridge Amount** ” shall mean an amount of cash equal to (A) Closing Cash Amount, plus (B) the lesser of (i) $600,000 or (ii) one-half (1/2) of the Interim Cash Burn Amount.

“ **Executive Escrow Amount** ” shall mean an amount of cash equal to the result of $4,800,000 <u>minus</u> the Escrow Amount.

" **Executive Retention Bonuses** " shall mean the portion of the Gross Consideration Bonus Pool allocated to each of Max Simkoff, Asif Qamar, Mike Housman, Dennis Yen and Mike Karbushev on **Schedule 1.6(d)** and payable as a cash bonus to each such individual pursuant to his respective Key Employee Agreement.

" **Executive Transaction Bonuses** " shall mean the portion of the Gross Consideration Bonus Pool allocated to each of Carl Tsukahara, Steven Love, Patrick Williams, Jim Meyerle and Rich Wyckoff on **Schedule 1.6(d)** and payable as a cash bonus to each such individual, provided that such individual enters into a Transaction Bonus Letter Agreement with the Company on or prior to the Closing Date.

" **Executive Transaction Bonus Letter** " shall mean a transaction bonus letter in substantially the form attached hereto as Exhibit G .

" **Executive Transaction Bonus Recipients** " shall mean Carl Tsukahara, Steve Love, Patrick Williams, Jim Meyerle and Rich Wyckoff.

" **GAAP** " shall mean United States generally accepted accounting principles consistently applied.

" **Gross Consideration** " shall mean an amount equal to the Total Consideration, plus the Executive Retention Bonuses, plus the Executive Transaction Bonuses.

" **Gross Consideration Bonus Pool** " shall mean a Dollar amount equal to 10% of the Gross Consideration.

" **Indebtedness** " of any Person shall mean, as of any specified date, the amount equal to the sum (without any double-counting or duplication with Third-Party Expenses) of the following obligations (whether or not then due and payable), to the extent they are of such Person or its subsidiary or guaranteed by such Person or its subsidiary, including through the grant of a security interest upon any assets of such Person: (i) all outstanding indebtedness for borrowed money owed to third parties, (ii) accrued interest payable with respect to indebtedness referred to in clause (i), (iii) all obligations for the deferred purchase price of property or services (including any potential future earn-out, purchase price adjustment, releases of "holdbacks" or similar payments, but excluding (A) any such obligations to the extent there is cash being held in escrow exclusively for purposes of satisfying such obligations and (B) trade payables or accruals incurred in the ordinary course of business (" **Deferred Purchase Price** ")), (iv) all obligations evidenced by notes, bonds, debentures or other similar instruments (whether or not convertible) or arising under indentures, (v) all obligations arising out of any financial hedging, swap or similar arrangements, (vi) all obligations as lessee that would be required to be capitalized in accordance with GAAP, (vii) all obligations in connection with any drawn letter of credit, banker's acceptance, guarantee, surety, performance or appeal bond, or similar credit transaction and (viii) the aggregate amount of all prepayment premiums, penalties, breakage costs, "make whole amounts," costs, expenses and other payment obligations of such Person that would arise (whether or not then due and payable) if all such items under clauses (i) through (viii) were prepaid, extinguished, unwound and settled in full as of such specified date. For purposes of determining the Deferred Purchase Price obligations as of a specified date, such obligations shall be deemed to be the maximum amount of Deferred Purchase Price owing as of such specified date (whether or not then due and payable) or potentially owing at a future date.

" **Interim Cash Burn Amount** " shall mean an amount of cash equal to (A) Current Cash Amount, plus (B) Company Bridge Interim Amount, minus (C) Closing Cash Amount.

“ **Key Employees** ” shall mean Jen Cullen, Michael Housman, Michael Karbushev, Chandar Lakshminarayan, Max Simkoff, Asif Qamar and Dennis Yen.

“ **Key Stockholders** ” shall mean Max Simkoff and Jim Meyerle.

“ **Knowledge** ” or “ **Known** ” shall mean with respect to the Company, the actual knowledge of the individuals listed on **Schedule 1.6(e)** after due and diligent inquiry of all relevant employees that directly report to such individuals whom such individuals should reasonably believe would have actual knowledge of the matters represented; *provided* that Chandar Lakshminarayan will be deemed to be an employee that directly reports to Asif Qamar for purposes of this definition.

“ **Law** ” shall mean any applicable U.S. or non-U.S. federal, state, local or other constitution, law, statute, ordinance, rule, regulation, published administrative position, policy or principle of common law, or any order, in any case issued, enacted, adopted, promulgated, implemented or otherwise put into legal effect by or under the authority of any Governmental Entity.

“ **Liability** ” or “ **Liabilities** ” shall mean, with respect to any Person and without duplication, all liabilities of any kind (whether known or unknown, contingent, accrued, due or to become due, secured or unsecured, matured or otherwise), including but not limited to Taxes, accounts payable, royalties payable, and other reserves, accrued bonuses, accrued vacation, employee expense obligations, deferred revenue, severance (including any related statutory liabilities), change-of-control, golden parachute, management retention or similar payments, and all other liabilities of such Person or any of its subsidiaries, regardless of whether such liabilities are required to be reflected on a balance sheet in accordance with GAAP.

“ **Lien** ” shall mean any lien, pledge, charge, claim, mortgage, security interest or other encumbrance of any sort.

“ **Material Adverse Effect** ” with respect to the Company, shall mean any state of facts, condition, change, development, event or effect that, either alone or in combination with any other state of facts, condition, change, development, event or effect, is, or would be reasonably likely to be, materially adverse to the business, assets (whether tangible or intangible), condition (financial or otherwise), operations, or capitalization of the Company; *provided, however* , that in determining whether a Material Adverse Effect has occurred, or is reasonably likely to occur, there shall be excluded any state of facts, condition, change, development, event or effect on the Company resulting from or arising out of: (a) the outbreak or escalation of war, hostilities or terrorist activities, either in the United States or abroad; (b) general economic or political conditions or events, circumstances, changes or effects affecting the securities market generally; (c) conditions affecting the industry in which the Company operates generally, (d) the Company’s failure to take any action that is specifically prohibited by **Section 4.1** and with respect to which Parent has refused to provide its written consent pursuant to **Section 4.3** ; (e) any failure by the Company to meet any projections, budgets or estimates of revenue or earnings (it being understood that the facts and circumstances giving rise to such failure may be taken into account in determining whether there has been a Material Adverse Effect (except to the extent such facts or circumstances are otherwise excluded from being taken into account by this proviso)) and (f) changes in any applicable Law or GAAP or other accounting standards; *provided* , *however* , that in each case of clauses (a), (b), (c) and (e) such state of facts, condition, change, development, event or effect do not have a disproportionate or unique effect on the Company relative to other companies in the Company’s industry.

“ **Named Executive** ” shall mean the individual set forth on **Schedule 1.6(f)** .

“ **Non-Continuing Service Provider** ” shall mean any employee or independent contractor of the Company who is not a Continuing Employee or a Continuing Contractor as of the Closing.

“ **Non-Continuing Service Provider PTO Amount** ” shall mean the amount of all vacation and/or paid time off that has been accrued but unused by any of the Non-Continuing Service Providers as of the Closing.

“ **Other Certificates** ” shall mean the Closing Statement Certificate delivered pursuant to **Section 1.8(a)(i)** , the Spreadsheet and the Spreadsheet Certificate delivered pursuant to **Section 5.20** , and the FIRPTA Compliance Certificate delivered pursuant to **Section 5.18** .

“ **Parent Common Stock** ” shall mean shares of Common Stock, par value $0.0001 per share, of Parent.

“ **Parent Transaction Expenses** ” shall mean the Continuing Employee PTO Amount and the Advisor Deal Bonuses.

“ **Permitted Liens** ” shall mean (a) statutory liens for Taxes that are not yet due and payable or which are being contested in good faith through appropriate proceedings and for which adequate reserves have been established on the Financials in accordance with GAAP; (b) statutory liens to secure obligations to landlords, lessors or renters under leases or rental agreements; (c) deposits or pledges made in connection with, or to secure payment of, workers’ compensation, unemployment insurance or similar programs mandated by applicable Law; (d) statutory liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like liens as to amounts that are not in default; and (e) nonexclusive end-user licenses to Company Intellectual Property granted in the ordinary course of business.

“ **Person** ” shall mean an individual or entity, including a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a Governmental Entity (or any department, agency, or political subdivision thereof).

“ **Personal Data** ” shall mean: (i) a natural person’s name, street address, telephone number, e-mail address, photograph, social security number or tax identification number, driver’s license number, passport number, credit card number, bank information, or customer or account number, biometric identifiers, device or machine identifier, IP address, or any other piece of information that alone or in combination with other information directly or indirectly collected, held, or otherwise processed by or for the Company allows for the identification or contact with, a natural person or a particular computing device; (ii) any information defined as “personal data”, “personally identifiable information”, “individually identifiable health information”, “protected health information”, or “personal information” under any Law; and (iii) any information that is associated, directly or indirectly, with any of the foregoing.

“ **Plan** ” shall mean the Company’s 2008 Stock Incentive Plan.

“ **Pre-Closing Tax Period** ” shall mean any taxable period (or portion thereof) ending on or prior to the Closing Date.

“ **Priority Service Provider** ” shall mean each Target Service Provider who is designated as a Priority Service Provider on (i) **Schedule 1.6(g)** hereto or (ii) **Schedule 1.6(h)** hereto, as applicable.

“ **Pro Rata Consideration Portion** ” shall mean, with respect to each Indemnifying Party, a percentage equal to the quotient of (x) the aggregate amount of the Total Consideration receivable by such Indemnifying Party pursuant to **Section 1.7(b)** hereof, divided by (y) the aggregate amount of the Total Consideration receivable by all Indemnifying Parties pursuant to **Section 1.7(b)** hereof.

“ **Pro Rata Escrow Portion** ” shall mean, (i) with respect to each Indemnifying Party holding shares of Company Junior Preferred Stock immediately prior to the Effective Time, a percentage equal to the quotient of (x) the aggregate amount of the Aggregate Junior Preferred Consideration receivable by such Indemnifying Party pursuant to **Section 1.7(b)** hereof, divided by (y) the sum of (A) the aggregate amount of Aggregate Junior Preferred Consideration receivable by all Indemnifying Parties pursuant to **Section 1.7(b)** hereof and (B) the aggregate amount of all Executive Transaction Bonuses, and (ii) with respect to each Indemnifying Party receiving an Executive Transaction Bonus, a percentage equal to the quotient of (x) the amount of the Executive Transaction Bonus receivable by such Indemnifying Party, divided by (y) the sum of (A) the aggregate amount of Aggregate Junior Preferred Consideration receivable by all Indemnifying Parties pursuant to **Section 1.7(b)** hereof and (B) the aggregate amount of all Executive Transaction Bonuses.

“ **Pro Rata Executive Escrow Portion** ” shall mean, with respect to each Indemnifying Party holding shares of Company Junior Preferred Stock immediately prior to the Effective Time, a percentage equal to the quotient of (x) the aggregate amount of the Aggregate Junior Preferred Consideration receivable by such Indemnifying Party pursuant to **Section 1.7(b)** hereof, divided by (y) the aggregate amount of Aggregate Junior Preferred Consideration receivable by all Indemnifying Parties pursuant to **Section 1.7(b)** hereof.

“ **Pro Rata Indemnity Portion** ” shall mean, with respect to each Indemnifying Party, a percentage equal to the quotient of (x) the aggregate amount of Closing Cash Consideration receivable by such Indemnifying Party pursuant to **Section 1.7(b)** hereof, divided by (y) the aggregate amount of Closing Cash Consideration receivable by all Indemnifying Parties pursuant to **Section 1.7(b)** hereof.

“ **Related Agreements** ” shall mean the Key Employee Agreements, the Letters of Transmittal, the Joinder Agreements, the Non-Competition Agreements, the Parent Severance Agreements, and all other agreements and certificates entered into or delivered by the Company Stockholders in connection with the Merger and the other transactions contemplated herein.

“ **Series A Per Share Amount** ” shall mean an amount of cash equal to the quotient obtained by dividing the Series A Pro Rata Amount by the Total Outstanding Series A Preferred Shares, rounded to the nearest one hundred thousandth (0.00001) (with amounts of 0.000005 and above rounded up).

“ **Series A Percentage** ” shall mean that amount equal to the quotient obtained by dividing the Series A Preference by the Aggregate Junior Preferred Preference.

“ **Series A Preference** ” shall mean that amount equal to the product of the Total Outstanding Series A Preferred Shares multiplied by $1.00.

“ **Series A Pro Rata Amount** ” shall mean that amount equal to the product obtained by multiplying the Series A Percentage by the Aggregate Junior Preferred Consideration.

“ **Series B Per Share Amount** ” shall mean an amount of cash equal to the quotient obtained by dividing the Series B Pro Rata Amount by the Total Outstanding Series B Preferred Shares,

rounded to the nearest one hundred thousandth (0.00001) (with amounts of 0.000005 and above rounded up).

" **Series B Percentage** " shall mean that amount equal to the quotient obtained by dividing the Series B Preference by the Aggregate Junior Preferred Preference.

" **Series B Preference** " shall mean that amount equal to the product of the Total Outstanding Series B Preferred Shares multiplied by $1.229.

" **Series B Pro Rata Amount** " shall mean that amount equal to the product obtained by multiplying the Series B Percentage by the Aggregate Junior Preferred Consideration.

" **Series C Per Share Amount** " shall mean an amount of cash equal to the quotient obtained by dividing the Series C Pro Rata Amount by the Total Outstanding Series C Preferred Shares, rounded to the nearest one hundred thousandth (0.00001) (with amounts of 0.000005 and above rounded up).

" **Series C Percentage** " shall mean that amount equal to the quotient obtained by dividing the Series C Preference by the Aggregate Junior Preferred Preference.

" **Series C Preference** " shall mean that amount equal to the product of the Total Outstanding Series C Preferred Shares multiplied by $2.814.

" **Series C Pro Rata Amount** " shall mean that amount equal to the product obtained by multiplying the Series C Percentage by the Aggregate Junior Preferred Consideration.

" **Series D Per Share Amount** " shall mean an amount of cash equal to the quotient obtained by dividing the Series D Preference by the Total Outstanding Series D Preferred Shares, rounded to the nearest one hundred thousandth (0.00001) (with amounts of 0.000005 and above rounded up).

" **Series D Preference** " shall mean that amount equal to the product of the Total Outstanding Series D Preferred Shares multiplied by $3.024.

" **Stockholder Escrow Amount** " shall mean an amount of cash equal to ten percent (10%) of the Total Consideration less the Transaction Bonus Escrow Amount.

" **Straddle Period** " shall mean any taxable period that begins on or before and ends after the Closing Date.

" **Subsidiary** " shall mean, with respect to any party, any corporation or other organization or Person, whether incorporated or unincorporated, of which (x) such party or any other subsidiary of such party is a general partner (excluding such partnerships where such party or any subsidiary of such party does not have a majority of the voting interest in such partnership) or (y) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its subsidiaries or affiliates.

" **Target Service Provider** " shall mean either (i) an employee of the Company listed on **Schedule 1.6(e)** hereto or (ii) an independent contractor of the Company listed on **Schedule 1.6(f)** hereto.

" **Total Consideration** " shall mean $42,500,000 in cash, less the amount of any Company Third-Party Expenses, less any Unpaid Pre-Closing Taxes, less the amount of any Closing Indebtedness, plus the Adjusted Net Equity Adjustment Amount (resulting in an increase in Total Consideration if such amount is a positive number or a decrease in Total Consideration if such amount is a negative number), less the aggregate amount of the Company Transaction Expenses, plus the aggregate amount of the Parent Transaction Expenses, plus the amount of any Excess Company Bridge Amount, minus the Expense Fund Amount.

" **Total Outstanding Common Shares** " shall mean the aggregate number of shares of Company Common Stock issued and outstanding as of immediately prior to the Effective Time.

" **Total Outstanding Series A Preferred Shares** " shall mean the aggregate number of shares of Company Series A Preferred Stock issued and outstanding as of immediately prior to the Effective Time.

" **Total Outstanding Series B Preferred Shares** " shall mean the aggregate number of shares of Company Series B Preferred Stock issued and outstanding as of immediately prior to the Effective Time.

" **Total Outstanding Series C Preferred Shares** " shall mean the aggregate number of shares of Company Series C Preferred Stock issued and outstanding as of immediately prior to the Effective Time.

" **Total Outstanding Series D Preferred Shares** " shall mean the aggregate number of shares of Company Series D Preferred Stock issued and outstanding as of immediately prior to the Effective Time.

" **Transaction Bonus Escrow Amount** " shall mean an amount equal to ten percent (10%) of the Executive Transaction Bonuses that are actually paid out to the Executive Transaction Bonus Recipients at the Closing.

" **Transaction Payroll Taxes** " shall mean the employer portion of any employment or payroll Taxes imposed on (i) any bonuses, option cashouts, severance, change-of-control or other compensatory payments made in connection with the transactions contemplated by this Agreement that are made at or immediately after Closing and (ii) the Executive Transaction Bonuses.

" **Unpaid Pre-Closing Taxes** " shall mean (i) any Taxes of the Company attributable to any Pre-Closing Tax Period that are not yet paid, and (ii) any Taxes attributable to the transactions contemplated by this Agreement, including Transaction Payroll Taxes; *provided* , *however* , that Unpaid Pre-Closing Taxes shall not include (x) any Taxes arising solely from an election made under Section 338 of the Code made by Parent with respect to the Company or (y) any sales Taxes that the Company failed to collect from transactions entered into with Xerox Corporation and/or any of its subsidiaries, if the Company has obtained evidence reasonably satisfactory to Parent that the Company will have no liability for such sales Taxes because such sales Taxes have been paid by Xerox Corporation or any of its subsidiaries. For purposes of the foregoing, any real, personal and intangible property Taxes for any Straddle Period shall be allocated to the portion of the Straddle Period ending on the Closing Date on a per diem basis, and all other Taxes for any Straddle Period shall be allocated as if such Straddle Period ended on the Closing Date, except that exemptions, allowances or deductions that are calculated on an annual basis (including depreciation and amortization deductions), other than with respect to property placed in service after the Closing, shall be allocated on a per diem basis.

"**Xerox Receivable**" has the meaning set forth in **Section 10.6**.

1.7 Effect of Merger on the Capital Stock of the Constituent Corporations.

(a) Effect on Company Common Stock. At the Effective Time, by virtue of the Merger and subject to **Section 1.9** regarding Dissenting Shares and without any action on the part of Sub, the Company or the holders of shares of Company Capital Stock, each share of Company Common Stock issued and outstanding of as immediately prior to the Effective Time will be cancelled and extinguished without consideration and will have no further rights.

(b) Effect on Company Preferred Stock. At the Effective Time, by virtue of the Merger and subject to **Section 1.9** regarding Dissenting Shares and without any action on the part of Sub, the Company or the holders of shares of Company Capital Stock, each share of Company Preferred Stock issued and outstanding as of immediately prior to the Effective Time, upon the terms and subject to the conditions set forth in this **Section 1.7** and throughout this Agreement, will be cancelled and extinguished and, upon surrender of the certificate representing such shares of Company Preferred Stock in the manner provided in **Section 1.7(b)** hereof, will be converted automatically into the right to receive that portion of the Total Consideration as follows:

(i) Each outstanding share of Company Series A Preferred Stock (other than any Dissenting Shares) will be converted automatically into the right to receive the Series A Per Share Amount;

(ii) Each outstanding share of Company Series B Preferred Stock (other than any Dissenting Shares) will be converted automatically into the right to receive the Series B Per Share Amount;

(iii) Each outstanding share of Company Series C Preferred Stock (other than any Dissenting Shares) will be converted automatically into the right to receive the Series C Per Share Amount; and

(iv) Each outstanding share of Company Series D Preferred Stock (other than any Dissenting Shares) will be converted automatically into the right to receive the Series D Per Share Amount.

Notwithstanding the foregoing, with respect to each Company Stockholder that holds shares of Company Junior Preferred Stock immediately prior to the Effective Time, such Company Stockholder's Pro Rata Escrow Portion of the Escrow Amount and such Company Stockholder's Pro Rata Executive Escrow Portion of the Executive Escrow Amount shall be withheld from the amount otherwise payable to such Company Stockholder pursuant to this **Section 1.7(b)**, and the entire Escrow Amount and Executive Escrow Amount shall be placed in escrow pursuant to the escrow provisions of **Section 1.10(b)** and **Article VII** hereof. The Total Consideration payable pursuant to this **Section 1.7(b)** less the Escrow Amount and the Executive Escrow Amount shall be referred to herein as the "**Closing Cash Consideration**."

(c) Treatment of Company Options and Company Warrants.

(i) Effect on Company Options. No outstanding Company Options shall be assumed by Parent or remain outstanding after the Effective Time. The Company shall cause each such Company Option to be terminated or cancelled as of immediately prior to the Effective Time, either pursuant to its terms or pursuant to an agreement with the holder thereof.

(ii) Effect on Company Warrants. No outstanding Company Warrants, if any, shall be assumed by Parent, and the Company shall cause each such Company Warrant to be either exercised by the holder of such Company Warrant in full or, to the extent not exercised in full, terminated or cancelled as of immediately prior to the Closing, either pursuant to its terms or pursuant to an agreement with the holder thereof.

(iii) Necessary Actions. Prior to the Effective Time, and subject to the review and approval of Parent, the Company shall take all actions necessary to effect the transactions contemplated by this **Section 1.7(c)** under the Plan, all Company Option agreements, all Company Warrant agreements and any other plan or arrangement of the Company (whether written or oral, formal or informal), including delivering all required notices and obtaining any required consents, such that at the Effective Time the Company shall not have any outstanding equity or equity-related interests other than shares of Company Preferred Stock.

(d) Effect on Capital Stock of Sub. Each share of common stock of Sub issued and outstanding as of immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation. Each stock certificate of Sub evidencing ownership of any such shares shall continue to evidence ownership of such shares of capital stock of the Surviving Corporation.

1.8 Purchase Price Adjustments

(a) Calculation of Purchase Price Adjustments.

(i) The Company shall deliver to Parent, in a form reasonably acceptable to Parent, not less than three (3) Business Days prior to the Closing Date, a final statement prepared in accordance with GAAP (the " **Closing Statement** ") setting forth in reasonable detail and accompanied by reasonably detailed back-up documentation the calculation of (A) the amounts of the Company Third-Party Expenses, Company Transaction Expenses and Parent Transaction Expenses, (B) the amount of the Unpaid Pre-Closing Taxes, (C) the amount of the Closing Indebtedness, (D) the Adjusted Net Equity Adjustment Amount, and (E) the amount of any Excess Company Bridge Amount. Such Closing Statement shall be certified as true, correct and complete as of the Closing Date by the Company's Chief Executive Officer and Chief Financial Officer (the " **Closing Statement Certificate** ").

(ii)For the avoidance of doubt, the Current Assets and Current Liabilities used to calculate the Adjusted Net Equity Amount shall be calculated in the same way, using the same methodologies and accounting practices and principles applied on a consistent basis (including with respect to determining estimates and allowances) as the line items comprising such Current Assets and Current Liabilities as set forth in **Schedule 1.6(a)** and **Schedule 1.6(b)** , respectively.

(b) Preparation and Delivery of Post-Closing Statement. As promptly as practicable, but in no event later than sixty (60) calendar days after the Closing Date, Parent shall prepare and deliver, or cause to be prepared and delivered, to the Escrow Representative a certificate (the " **Post-Closing Statement** "), executed by a responsible officer of Parent, setting forth in reasonable detail Parent's good faith calculation of (A) the amounts of the Company Third-Party Expenses, Company Transaction Expenses and Parent Transaction Expenses, (B) the amount of the Unpaid Pre-Closing Taxes, (C) the amount of the Closing Indebtedness, (D) the Adjusted Net Equity Adjustment Amount and (E) the amount of any Excess Company Bridge Amount, accompanied by reasonably detailed back-up documentation for such calculation and any additional information reasonably requested by the Escrow Representative; *provided* , *however* , in the event Parent does not deliver the Post-Closing Statement to the Escrow Representative within such 60-day period the calculation of such amounts as set forth in the

Closing Statement shall be final and binding on the parties and not subject to appeal. The Post-Closing Statement shall be prepared in a manner consistent with the Closing Statement. Following the Closing, Parent shall provide the Escrow Representative and its representatives reasonable access at reasonable times and upon reasonable notice to the records, properties, personnel and (subject to the execution of customary work paper access letters if requested) auditors of the Company relating to the preparation of the Post-Closing Statement and shall cause the personnel of the Company to reasonably cooperate with the Escrow Representative in connection with its review of the Post-Closing Statement.

(c) Review of Post-Closing Statement . The Escrow Representative shall have thirty (30) days following its receipt of the Post-Closing Statement (the " **Review Period** ") to review the Post-Closing Statement together with information reasonably requested by the Escrow Representative (which shall be promptly provided to the Escrow Representative). On or before the expiration of the Review Period, the Escrow Representative shall deliver to Parent a written statement accepting or disputing the Post-Closing Statement. In the event that the Escrow Representative shall dispute the Post-Closing Statement, such statement shall include a detailed itemization of the Escrow Representative's objections and the reasons therefor (such statement, a " **Dispute Statement** "). Any component of the Post-Closing Statement that is not disputed in a Dispute Statement shall be final and binding on the parties hereto and not subject to appeal. If the Escrow Representative does not deliver a Dispute Statement to Parent within the Review Period or delivers a statement accepting the Post-Closing Statement, the Post-Closing Statement shall be final and binding on the parties hereto and not subject to appeal.

(d) Dispute Resolution . If the Escrow Representative delivers a Dispute Statement during the Review Period, Parent and the Escrow Representative shall promptly meet and attempt in good faith to resolve their differences with respect to the disputed items set forth in the Dispute Statement during the thirty (30) calendar days immediately following Parent's receipt of the Dispute Statement, or such longer period as Parent and the Escrow Representative may mutually agree (the " **Resolution Period** "). Any such disputed items that are resolved by Parent and the Escrow Representative during the Resolution Period shall be final and binding on the parties hereto and not subject to appeal. If Parent and the Escrow Representative do not resolve all such disputed items by the end of the Resolution Period, Parent and the Escrow Representative shall submit all items remaining in dispute with respect to the Dispute Statement to KPMG LLP or any other nationally recognized independent accounting firm upon which Parent and the Escrow Representative shall reasonably agree (the " **Accounting Firm** ") for review and resolution. The Accounting Firm shall act as an expert and not an arbitrator. The Accounting Firm shall make all calculations in accordance with the practices used in preparation of the Post-Closing Statement, shall determine only those items remaining in dispute between Parent and the Escrow Representative, and shall only be permitted or authorized to determine an amount with respect to any such disputed item that is equal to or between the amount of such disputed item as proposed by Parent in the Post-Closing Statement or the amount of such disputed item as proposed by the Escrow Representative in the Dispute Statement. Each of Parent and the Escrow Representative shall (i) enter into a customary engagement letter with the Accounting Firm at the time such dispute is submitted to the Accounting Firm and otherwise cooperate with the Accounting Firm, (ii) have the opportunity to submit a written statement in support of their respective positions with respect to such disputed items, to provide supporting material to the Accounting Firm in defense of their respective positions with respect to such disputed items and to submit a written statement responding to the other party's position with respect to such disputed items and (iii) subject to customary confidentiality and indemnity agreements, provide the Accounting Firm with access to their respective books, records, personnel and representatives and such other information as the Accounting Firm may require in order to render its determination. The Accounting Firm shall be instructed to deliver to Parent and the Escrow Representative a written determination (such determination to include a worksheet setting forth all material calculations used in arriving at such determination and to be based solely on information provided to the Accounting Firm by Parent and the Escrow Representative) of the disputed items within thirty (30) calendar days of receipt of the disputed items,

which determination shall be final and binding on the parties hereto and not subject to appeal. The Escrow Representative (on behalf of the Company Stockholders) and Parent shall pay the portion of the fees and costs of the Accounting Firm (" **Accountant Costs** "), if any, determined by multiplying the amount of the Accountant Costs by a fraction the numerator of which is (with respect to each party) (A) the positive difference between (1) the aggregate Total Consideration calculated using the amounts submitted by such party to the Accounting Firm on the Post-Closing Statement or Dispute Statement, as applicable, and (2) the determination of the actual Total Consideration made by the Accounting Firm, and the denominator of which is (B) the aggregate difference between the amounts of Total Consideration as calculated using the amounts on each party's submission of the Post-Closing Statement or Dispute Statement, as applicable.

(e) Post-Closing Payments .

(i) Upon the final determination of (A) the Company Third-Party Expenses, Company Transaction Expenses and Parent Transaction Expenses, (B) the Unpaid Pre-Closing Taxes, (C) the Closing Indebtedness, (D) the Adjusted Net Equity Adjustment Amount and (E) the amount of any Excess Company Bridge Amount pursuant to this **Section 1.8** :

(A) if the Total Consideration calculated using the amounts finally determined pursuant to this **Section 1.8** is greater than the Total Consideration calculated using the amounts set forth in the Closing Statement (the difference between such amounts, the " **Post-Closing Adjustment Excess** "), then the Company Stockholders shall be entitled to receive such Post-Closing Adjustment Excess from Parent under this **Section 1.8(e)** ;

(B) if the Total Consideration calculated using the amounts set forth in the Closing Statement is less than the Total Consideration calculated using the amounts finally determined pursuant to this **Section 1.8** (the difference between such amounts, the " **Post-Closing Adjustment Deficit** "), then Parent shall be entitled to receive such Post-Closing Adjustment Deficit from the Company Stockholders under this **Section 1.8(e)** ; and

(C) if the Total Consideration calculated using the amounts set forth in the Closing Statement is equal to the Total Consideration calculated using the amounts finally determined pursuant to this **Section 1.8** , then no payments shall be made pursuant to this **Section 1.8(e)** .

(ii) Within five (5) Business Days after the determinations set forth in clause (i) of this **Section 1.8 (e)** , either (A) Parent shall, in the event there is a Post-Closing Adjustment Excess, deposit or shall cause to be deposited with the Paying Agent, by wire transfer of immediately available funds, an amount in cash equal to the Post-Closing Adjustment Excess, which shall be payable to the Company Stockholders in accordance with **Section 1.7** ; or (B) Parent and the Escrow Representative shall, in the event there is a Post-Closing Adjustment Deficit, provide a joint written instruction to the Escrow Agent to deliver an amount in cash equal to the Post-Closing Adjustment Deficit from the Escrow Fund, which shall be deemed to be deducted from the portion of the Escrow Fund attributable to each Company Stockholder based on such holder's Pro Rata Escrow Portion of the Escrow Fund. For avoidance of doubt, any recovery of the Post-Closing Adjustment Deficit shall not be subject to any of limitations set forth in **Sections 7.3(a)** or **(b)** .

(iii) Any payment made under this **Section 1.8** , to the maximum extent permitted by applicable Law, shall be treated for all Tax purposes as an adjustment to the Total Consideration.

1.9 Dissenting Shares

(a) Notwithstanding any other provisions of this Agreement to the contrary, any shares of Company Capital Stock held by a holder who has not effectively withdrawn or lost such holder's appraisal, dissenters' or similar rights for such shares under the applicable provisions of Delaware Law or the California Corporations Code (" **California Law** "), as applicable (collectively, the " **Dissenting Shares** "), shall not be converted into or represent a right to receive the applicable consideration for Company Capital Stock set forth in **Section 1.7** hereof, but the holder thereof shall only be entitled to such rights as are provided by Delaware Law and California Law.

(b) Notwithstanding the provisions of **Section 1.9(a)** hereof, if any holder of Dissenting Shares shall effectively withdraw or lose (through failure to perfect or otherwise) such holder's appraisal or dissenters' rights under Delaware Law and California Law, as applicable, then, as of the later of the Effective Time and the occurrence of such event, such holder's shares shall automatically be converted into and represent only the right to receive the consideration for Company Capital Stock, as applicable, set forth in **Section 1.7** hereof, if any, without interest thereon, and subject to the provisions of **Section 7.4** hereof, upon surrender of the certificate representing such shares.

(c) The Company shall give Parent (i) prompt notice of any written demand for appraisal received by the Company pursuant to the applicable provisions of Delaware Law or California Law and (ii) the opportunity to direct all negotiations and proceedings with respect to such demands. The Company shall not, except with the prior written consent of Parent, make any payment with respect to any such demands or offer to settle or settle any such demands. Notwithstanding the foregoing, to the extent that Parent, the Surviving Corporation or the Company (x) makes any payment or payments in respect of any Dissenting Shares in excess of the consideration that otherwise would have been payable in respect of such shares in accordance with this Agreement or (y) incurs any Losses (including reasonable out-of-pocket attorneys' and consultants' fees, out-of-pocket costs and expenses and including any such fees, costs and expenses incurred in connection with investigating, defending against or settling any action or proceeding) in respect of any Dissenting Shares (excluding payments for such shares) ((x) and (y) together, " **Dissenting Share Payments** "), Parent shall be entitled to recover under the terms of **Article VII** hereof the amount of such Dissenting Share Payments. Notwithstanding anything to the contrary contained herein, Parent shall not, except with the prior written consent of the Escrow Representative (such consent not to be unreasonably withheld), make any Dissenting Share Payments (and with respect to clause (y) of the previous sentence, such amounts shall not be deemed to be Dissenting Share Payments absent such consent); *provided* , that Parent may pay or incur amounts described in clauses (x) and (y) of the previous sentence up to an aggregate of $200,000 without the prior written consent of the Escrow Representative (" **Unconsented Payments** "); *provided, further* , that only 75% of the amount of each such Unconsented Payment shall be deemed to be a Dissenting Share Payment, unless Parent has received prior to the Effective Time a duly executed Joinder Agreement from the Company Stockholders constituting the holders of not less than 95% of the shares of Company Capital Stock outstanding immediately prior to the Effective Time, in which case only 50% of the amount of each such Unconsented Payment shall be deemed to be a Dissenting Share Payment.

1.10 Surrender of Certificates .

(a) Paying Agent . Parent, U.S. Bank National Association or another institution selected by Parent may serve as the paying agent (the " **Paying Agent** ") for the Merger.

(b) Parent to Provide Cash . On the Closing Date, Parent shall deposit (i) with the Paying Agent, an amount equal to the Closing Cash Consideration, (ii) with the Paying Agent, an amount equal to the Closing Third-Party Payoff Amounts, (iii) with the Escrow Agent, an amount equal to the

Stockholder Escrow Amount to be held in the Escrow Fund and distributed in accordance with the terms of this Agreement (iv) with the Escrow Agent, an amount equal to the Transaction Bonus Escrow Amount to be held in the Escrow Fund and distributed in accordance with the terms of this Agreement, (v) with the Escrow Agent, an amount equal to the Executive Escrow Amount to be held in the Executive Escrow Fund and distributed in accordance with the terms of this Agreement. At such time, Parent shall be deemed to have (i) deposited into the Escrow Fund (A) each Company Stockholder's Pro Rata Escrow Portion of the Escrow Amount,and (B) each Executive Transaction Bonus Recipient's Pro Rata Escrow Portion of the Escrow Amount, in each case rounded to the nearest cent, and (ii) into the Executive Escrow Fund, each Company Stockholder's Pro Rata Executive Escrow Portion of the Executive Escrow Amount.

(c) Exchange Procedures . Subject to the conditions set forth in this Agreement, as soon as commercially practicable after the Effective Time, the Paying Agent shall mail or otherwise deliver to each Company Stockholder, at the address set forth opposite such Company Stockholder's name on the Spreadsheet, a stockholder letter of transmittal in substantially the form attached hereto as Exhibit G (the " **Letter of Transmittal** "), and, to the extent such Company Stockholder has not already executed and delivered a Joinder Agreement to Parent, a Joinder Agreement to each Company Stockholder at the address set forth opposite such Company Stockholder's name on the Spreadsheet. After receipt of such Letter of Transmittal, Joinder Agreement and any other documents that Parent or the Paying Agent may reasonably require in order to effect the exchange (the " **Exchange Documents** "), such Company Stockholder will surrender the certificates representing his, her or its shares of Company Preferred Stock (the " **Company Stock Certificates** ") to the Paying Agent for cancellation together with duly completed and validly executed Exchange Documents. Upon surrender of a Company Stock Certificate for cancellation to the Paying Agent, together with such Exchange Documents, duly completed and validly executed in accordance with the instructions thereto, and subject to the terms of **Section 1.10(d)** hereof, the holder of such Company Stock Certificate shall be entitled to receive from the Paying Agent in exchange therefor, the cash constituting that portion of the Total Consideration to which such Company Stockholder is entitled pursuant to **Section 1.7** hereof less appropriate tax withholding amounts, and the Company Stock Certificate so surrendered shall be cancelled. Until so surrendered, after the Effective Time, each Company Stock Certificate will be deemed, for all corporate purposes thereafter, to evidence only the right to receive the consideration provided for in this **Article I** . No portion of the Total Consideration will be paid to the holder of any unsurrendered Company Stock Certificate with respect to shares of Company Preferred Stock formerly represented thereby until the holder of record of such Company Stock Certificate shall surrender such Company Stock Certificate and the Exchange Documents pursuant hereto.

(d) Transfers of Ownership . If the cash payment or check evidencing the cash to be paid pursuant to **Section 1.7** hereof is to be made to a Person other than the Person whose name is reflected on the Company Stock Certificate surrendered in exchange therefor, it will be a condition of the issuance thereof that the certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the Person requesting such exchange will have paid to Parent or any agent designated by it any transfer or other taxes required by reason of the payment of any portion of the Total Consideration in any name other than that of the registered holder of the certificate surrendered, or established to the satisfaction of Parent or any agent designated by it that such tax has been paid or is not payable.

(e) Paying Agent to Return Merger Consideration . At any time following the last day of the six (6) month period following the Effective Time, Parent shall be entitled to require the Paying Agent to deliver to Parent or its designated successor or assign any portion of the Total Consideration that has been deposited with the Paying Agent pursuant to **Section 1.10(b)** hereof, and not disbursed pursuant to **Section 1.10(c)** hereof, and thereafter the Company Stockholders shall be entitled

to look only to Parent (subject to the terms of **Section 1.10(f)** hereof) as general creditors thereof with respect to any and all cash amounts that may be payable to such Persons pursuant to **Section 1.7** hereof. No interest shall be payable for the cash amounts delivered to Parent pursuant to the provisions of this **Section 1.10(e)** and which are subsequently delivered to the Company Stockholders.

(f) No Liability . Notwithstanding anything to the contrary in this **Section 1.10** , none of the Paying Agent, the Surviving Corporation or any other party hereto shall be liable to a Company Stockholder for any amount paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

1.11 No Further Ownership Rights in Company Capital Stock . The portion of the Total Consideration, if any, paid or payable in respect of the surrender for exchange of shares of Company Capital Stock in accordance with the terms hereof shall be deemed to be full satisfaction of all rights pertaining to such shares of Company Capital Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of Company Capital Stock that were outstanding as of immediately prior to the Effective Time. If, after the Effective Time, stock certificates that previously represented shares of Company Capital Stock are presented to the Surviving Corporation for any reason, they shall be cancelled and, if they represented shares of Company Preferred Stock, exchanged as provided in this **Article I** .

1.12 Lost, Stolen or Destroyed Certificates Stock . In the event any Company Stock Certificates shall have been lost, stolen or destroyed, the Paying Agent shall issue in exchange for such lost, stolen or destroyed certificates or agreements, upon the making of an affidavit of that fact by the holder thereof, such consideration, if any, as may be required pursuant to **Section 1.7** hereof or the Spreadsheet, as applicable; *provided* , *however* , that the Paying Agent shall, as a condition precedent to the issuance thereof, require the Company Stockholder who is the owner of such lost, stolen or destroyed certificates to deliver a bond in such amount as it may reasonably direct, indemnifying Parent and Paying Agent against any claim that may be made against Parent or the Paying Agent with respect to the certificates alleged to have been lost, stolen or destroyed.

1.13 Withholding Taxes . Notwithstanding any other provision of this Agreement, the Company and, on its behalf, Parent, the Surviving Corporation, the Paying Agent and the Escrow Agent shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement such amounts as may be required to be deducted or withheld therefrom under any provision of U.S. federal, state, local or non-U.S. tax law or under any applicable legal requirement, and to request and be provided any necessary tax forms, including IRS Form W-9 or the appropriate version of IRS Form W-8, as applicable, or any similar information. To the extent any such amounts are so deducted or withheld and paid over to the appropriate Governmental Entity, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

1.14 Taking of Necessary Action; Further Action . If at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company, Parent, Sub, and the officers and directors of the Company, Parent and Sub are fully authorized in the name of their respective corporations or otherwise to take, and will take, all such lawful and necessary action.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent and Sub, subject to such exceptions as are specifically disclosed in the disclosure schedule (referencing the appropriate section and subsection numbers or disclosed in any other section, subsection or clause of the Disclosure Schedule; *provided* , *however* , that it is reasonably apparent upon reading such disclosure without independent knowledge of the reader regarding the matter disclosed that the disclosure is responsive to such other section, subsection or clause of this **Article II**) supplied by the Company to Parent and Sub and dated as of the date hereof (the " **Disclosure Schedule** ") on the date hereof, and as of the Closing Date (or, if made as of a specified date, as of such date):

2.1 Organization of the Company

(a) The Company is a corporation duly organized and validly existing under the laws of the State of Delaware and has the requisite corporate power and authority to own, lease and operate its assets and properties and to carry on its business as currently conducted. The Company is duly qualified or licensed as a foreign corporation to do business, and is in good standing in each jurisdiction where the character or location of its assets or properties (whether owned, leased or licensed) or the nature of its activities make such qualification or licensing materially necessary to the Company's business as currently conducted. The Company has made available to Parent a true and correct copy of its certificate of incorporation, as amended to date (the " **Company Certificate of Incorporation** "), and bylaws, as amended to date (the " **Company Bylaws** "), each in full force and effect on the date hereof (collectively, the " **Charter Documents** "). Except for the Certificate Amendment, the Board of Directors of the Company has not approved or proposed any amendment to any of the Charter Documents not reflected therein.

(b) **Section 2.1(b)** of the Disclosure Schedule lists all of the directors and officers of the Company.

(c) **Section 2.1(c)** of the Disclosure Schedule lists every state or foreign jurisdiction in which the Company has Employees or facilities or otherwise has conducted its business since inception (specifying the existence of Employees or facilities in each such state or jurisdiction).

2.2 Company Capital Structure

(a) The authorized capital stock of the Company consists of (i) 30,000,000 shares of Company Common Stock, of which 3,792,403 shares are issued and outstanding as of the date hereof and (ii) 21,003,319 shares of Company Preferred Stock, of which 20,792,969 shares are issued and outstanding as of the date hereof. Of the authorized shares of Company Preferred Stock, 3,585,000 are designated as Company Series A Preferred Stock, of which 3,525,000 shares are issued and outstanding as of the date hereof, 6,783,868 are designated as Company Series B Preferred Stock, of which 6,710,638 shares are issued and outstanding as of the date hereof, 5,634,451 are designated as Company Series C Preferred Stock, of which 5,597,014 shares are issued and outstanding as of the date hereof, and 5,005,000 are designated as Company Series D Preferred Stock, of which 4,960,317 shares are issued and outstanding as of the date hereof. Each share of Company Preferred Stock is convertible on a one−share for one−share basis into Company Common Stock. As of the date hereof, the Company Capital Stock is held by the Persons with the domicile addresses and in the amounts set forth on **Section 2.2(a)** of the Disclosure Schedule, which further sets forth for each such Person the number of shares held by such Person, the number of the applicable stock certificate(s) representing such shares, the number of shares

currently or previously subject to repurchase for which elections under Section 83(b) of the Code were not timely made. All outstanding shares of Company Capital Stock are duly authorized, validly issued, fully paid and non−assessable and are not subject to preemptive rights created by statute, the Charter Documents, or any agreement to which the Company is a party or by which it is bound. There are no declared or accrued but unpaid dividends with respect to any shares of Company Capital Stock. Except as set forth in this **Section 2.2(a)** , the Company has no other capital stock authorized, issued or outstanding.

(b) All outstanding shares of Company Capital Stock, Company Options, and Company Warrants have been issued or repurchased (in the case of shares that were outstanding and repurchased by the Company or any stockholder of the Company) in compliance with all applicable federal, state, foreign, or local statutes, laws, rules, or regulations, including federal and state securities laws, and were issued, transferred and repurchased (in the case of shares that were outstanding and repurchased by the Company or any stockholder of the Company) in accordance with any right of first refusal or similar right or limitation applicable thereto, including those in the Charter Documents.

(c) Except for the Plan, the Company has never adopted, sponsored or maintained any stock option plan or any other plan or agreement providing for equity compensation to any Person. The Plan has been duly authorized, approved and adopted by the Board of Directors of the Company and the Company Stockholders and is in full force and effect. The Company has reserved 5,366,057 shares of Company Common Stock for issuance to employees and directors of, and consultants to, the Company upon the issuance of stock or the exercise of options granted under the Plan, of which (i) 4,767,073 shares are issuable, as of the date hereof, upon the exercise of outstanding, unexercised options granted prior to the date hereof under the Plan, (ii) 355,274 shares have been issued upon the exercise of options granted under the Plan and remain outstanding as of the date hereof, (iii) no shares have been issued in the form of restricted stock granted under the Plan and remain outstanding as of the date hereof, and (iv) 235,090 shares remain available for future grant. All Company Options have been offered, issued and delivered by the Company in compliance with all applicable laws, including federal and state securities laws, and in compliance with the terms and conditions of the Plan. **Section 2.2(c)** of the Disclosure Schedule sets forth, as of the date hereof, for each outstanding Company Option and Company Warrant, the name of the holder of such option or warrant, the type of entity of such holder (if not a natural person), the domicile address of such holder, the type and number of shares of Company Capital Stock issuable upon the exercise of such option or warrant, the exercise price of such option or warrant, the date of grant of such option or warrant, the vesting schedule for such option or warrant, including the extent vested to date and whether (and to what extent) the vesting of such option or warrant is subject to acceleration as a result of the transactions contemplated by this Agreement and whether such option is a nonstatutory option or intended to qualify as an incentive stock option as defined in Section 422 of the Code. True and complete copies of all agreements and instruments relating to or issued under the Plan have been made available to Parent, and such agreements and instruments have not been amended, modified or supplemented other than as provided in this Agreement, and there are no agreements to amend, modify or supplement such agreements or instruments from the forms thereof provided to Parent.

(d) Except as set forth in **Section 2.2(d)** of the Disclosure Schedule, there are no options, warrants, calls, rights, convertible securities, commitments or agreements of any character, written or oral, to which the Company is a party or by which the Company is bound obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of the Company or obligating the Company to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or other similar rights with respect to the Company. As a result of the Merger, upon the occurrence of the Effective Time, Parent will be the sole record and beneficial holder of all issued and outstanding shares of capital stock of the Surviving Corporation and all rights to acquire or

receive any shares of capital stock of the Surviving Corporation, whether or not such shares of the Surviving Corporation are outstanding.

(e) Except as set forth in **Section 2.2(e)** of the Disclosure Schedule and except as contemplated hereby, there are no (i) voting trusts, proxies, or other agreements or understandings with respect to the voting stock of the Company and (ii) agreements to which the Company is a party relating to the registration, sale or transfer (including agreements relating to rights of first refusal, co-sale rights or "drag-along" rights) of any Company Capital Stock.

2.3 Subsidiaries. The Company does not have and has never had any subsidiaries or affiliated companies and does not otherwise own and has never otherwise owned any shares of capital stock or any interest in, or control, directly or indirectly, any other corporation, limited liability company, partnership, association, joint venture or other business entity.

2.4 Authority and Enforceability. The Company has all requisite power and authority to enter into this Agreement, the Certificates and any Related Agreements to which it is a party and, subject to obtaining the Initial Stockholder Consent, to consummate the Merger, file the Certificate Amendment with the Secretary of State of the State of Delaware, and the other transactions contemplated hereby and thereby. The execution and delivery of this Agreement, the Certificates and any Related Agreements to which the Company is a party and the consummation of the Merger, and the other transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on the part of the Company, and no further corporate action is required on the part of the Company to authorize this Agreement, the Certificate Amendment, the Certificates and any Related Agreements to which it is a party and the transactions contemplated hereby and thereby, subject only to the approval of the transactions contemplated by this Agreement by the Company Stockholders. The vote required of the Company Stockholders to approve this Agreement, the Certificate Amendment, the Certificates and the Related Agreements, the Merger and the other transactions contemplated hereby and thereby is set forth in **Section 2.4** of the Disclosure Schedule (such vote, the " **Requisite Stockholder Vote** "). This Agreement, including the plan of merger described in **Article I** , has been unanimously approved by the Board of Directors of the Company, and the Board of Directors of the Company has unanimously recommended that the Company Stockholders approve this Agreement. This Agreement, the Certificates and each of the Related Agreements to which the Company is a party have been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute the valid and binding obligations of the Company enforceable against it in accordance with their respective terms, subject to (i) laws of general application relating to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general principles of equity.

2.5 Initial Stockholder Consent. The Initial Stockholder Consent, when executed and delivered, will satisfy all requirements for consents, votes or approvals by the holders of any classes or series of Company Capital Stock necessary to approve and adopt, and consummate, this Agreement, the Merger, and the transactions contemplated hereby, including the filing of the Certificate Amendment with the Secretary of State of the State of Delaware.

2.6 No Conflict. The execution and delivery by the Company of this Agreement, the Certificates and any Related Agreement to which the Company is a party, and the consummation of the transactions contemplated hereby and thereby, will not conflict with or result in any violation of or default under (with or without notice or lapse of time, or both) or give rise to, any payment obligation, or a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (any such event, a " **Conflict** ") (a) any provision of the Company Certificate of Incorporation, as amended by the Certificate Amendment, or the Company Bylaws, (b) any Material Contract, or (c) any judgment,

order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any of its properties or assets (whether tangible or intangible). **Section 2.6** of the Disclosure Schedule sets forth all necessary notices, consents, waivers and approvals of parties to any Material Contracts with the Company that are required thereunder in connection with the Merger, or for any such Material Contract to remain in full force and effect without limitation, modification or alteration immediately after the Closing so as to preserve all rights of, and benefits to, the Company under such Material Contracts as of immediately after the Closing. Immediately following the Closing, the Company will continue to be permitted to exercise all of its rights under the Material Contracts without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which the Company would otherwise be required to pay pursuant to the terms of such Material Contracts had the transactions contemplated by this Agreement not occurred.

2.7 Consents . No consent, notice, waiver, approval, order or authorization of, or registration, declaration or filing with any court, administrative agency or commission or other federal, state, county, supranational, local or other foreign governmental authority, instrumentality, agency or commission (each, a " **Governmental Entity** ") or any third party, including a party to any Contract with the Company (so as not to trigger any Conflict), is required by, or with respect to, the Company in connection with the execution and delivery of this Agreement, the Certificates and any Related Agreement to which the Company is a party or the consummation of the transactions contemplated hereby and thereby, except for (a) the filing of the Certificate of Merger as provided in **Section 1.2** hereof or (b) such consents, waivers and approvals as are set forth in **Section 2.6** of the Disclosure Schedule.

2.8 Company Financial Statements

(a) **Section 2.8** of the Disclosure Schedule sets forth the Company's (i) audited balance sheet as of December 31, 2013, and the related audited statements of income, cash flow and stockholders' equity for the twelve (12) month period then ended, and (ii) unaudited balance sheet as of August 31, 2014 (the " **Balance Sheet Date** "), and the related unaudited statements of income and cash flow for the eight (8) months then ended (collectively, the " **Financials** ") are true and correct in all material respects and have been prepared in accordance with GAAP consistently applied throughout the periods indicated and consistent with each other. The Financials present fairly in all material respects the Company's financial condition, operating results and cash flows as of the dates and during the periods indicated therein. The Company's unaudited balance sheet as of the Balance Sheet Date is referred to hereinafter as the " **Current Balance Sheet** ." The Company has identified all uncertain tax positions contained in all Tax Returns filed by the Company and has established adequate reserves and made any appropriate disclosures in the Financials in accordance with the requirements of Financial Interpretation No. 48 of FASB Statement No. 109. The books and records of the Company have been, and are being, maintained in all material respects in accordance with applicable legal and accounting requirements, and the Financials are consistent in all material respects with such books and records.

(b) The Company has established and maintains, adheres to and enforces a system of internal accounting controls which are customary for a company of the Company's size and stage of development that are designed to be effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements (including the Financials), in accordance with GAAP, including policies and procedures that (i) require the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with appropriate authorizations of management and the Company's Board of Directors and (iii) provide assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Company. The Company has no Knowledge of (i) any

significant deficiency or material weakness in the system of internal accounting controls utilized by the Company, (ii) any fraud that involves the Company's management or other Employees who have a role in the preparation of financial statements or the internal accounting controls utilized by the Company or (iii) any claim or allegation regarding any of the foregoing.

2.9 No Undisclosed Liabilities; No Material Adverse Effect; Ordinary Course

(a) The Company does not have any Liability (including, for the avoidance of doubt, any expense, deficiency, guaranty or endorsement of any type), whether accrued, absolute, contingent, matured, unmatured or other) that exceeds $10,000 individually and $25,000 in the aggregate, except for those which (i) have been reflected in the Current Balance Sheet, (ii) have arisen in the ordinary course of business consistent with past practices since the Balance Sheet Date and prior to the date hereof, (iii) have arisen since the date hereof and do not arise from a violation of **Section 4.1** hereof, (iv) are executory obligations under Contracts that have not arisen from a breach thereof or default thereunder or (v) are Indebtedness, Third-Party Expenses or Unpaid Pre-Closing Taxes, in each case that will be included in the Closing Statement as of the Closing. Except as set forth in **Section 2.9 (a)** of the Disclosure Schedule, the Company has no outstanding Indebtedness as of the date hereof.

(b) Except for Liabilities reflected in the Financials, the Company has no off-balance sheet Liability of any nature to, or any financial interest in, any third parties or entities, the purpose or effect of which is to defer, postpone, reduce or otherwise avoid or adjust the recording of expenses incurred by the Company. All reserves that are set forth in or reflected in the Current Balance Sheet have been established in accordance with GAAP consistently applied. Without limiting the generality of the foregoing, the Company has never guaranteed any debt or other obligation of any other Person.

(b) Since the Balance Sheet Date and prior to the date hereof, there has not occurred any Material Adverse Effect with respect to the Company.

(c) Since the Balance Sheet Date and prior to the date hereof, the Company has not taken any action that, if taken after the date hereof, would require Parent's consent under **Section 4.1** .

2.10 Accounts Receivable . All of the accounts receivable, whether billed or unbilled, of the Company arose in the ordinary course of business, are carried at values determined in accordance with GAAP consistently applied, are not, to the Knowledge of the Company, subject to any valid set-off or counterclaim, do not represent obligations for goods sold on consignment, on approval or on a sale−or−return basis or subject to any other repurchase or return arrangement. No Person has any Lien other than Permitted Liens on any accounts receivable of the Company and no request or agreement for deduction or discount has been made with respect to any accounts receivable of the Company.

2.11 Tax Matters

(a) Definition of Taxes . For the purposes of this Agreement, the term " **Tax** " or, collectively, " **Taxes** " shall mean (i) any and all U.S. federal, state, local and non-U.S. taxes, assessments and other governmental charges, duties (including stamp duty), impositions and liabilities, including capital gains tax, taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, escheat, excise and property taxes as well as public imposts, fees and social security charges (including health, unemployment, workers' compensation and pension insurance) in the nature of a tax, together with all interest, penalties, and additions imposed with respect to such amounts, (ii) any Liability for the payment of any amounts of the type described in clause (i) of this **Section 2.11** as a result of being a member of an affiliated, consolidated, combined, unitary or similar group (including any arrangement

for group or consortium relief or similar arrangement) for any period, and (iii) any Liability for the payment of any amounts of the type described in clauses (i) or (ii) of this **Section 2.11** as a result of any express or implied obligation to indemnify any other Person or as a result of any obligation under any agreement or arrangement with any other Person with respect to such amounts and including any Liability for taxes of a predecessor or transferor or otherwise by operation of law.

(b) Tax Returns and Audits .

(i) The Company has (a) prepared and timely filed all income and other material U.S. federal, state, local and non-U.S. returns, estimates, information statements and reports (" **Tax Returns** ") relating to any and all Taxes concerning or attributable to the Company or its operations, and such Tax Returns are true and correct in all material respects and have been completed in accordance with applicable law and (b) timely paid all Taxes it is required to pay.

(ii) The Company has paid or withheld with respect to its Employees, stockholders and other third parties, all U.S. federal, state and non-U.S. income Taxes and social security charges and similar fees, Federal Insurance Contribution Act amounts, Federal Unemployment Tax Act amounts and other Taxes required to be paid or withheld, and has timely paid over any such Taxes over to the appropriate authorities, and will pay or withhold (and pay over) such Taxes that are required to be paid or withheld with respect to any transaction or event occurring or payment made to such payees through and including the Closing Date.

(iii) The Company has not been delinquent in the payment of any Tax, nor is there any Tax deficiency outstanding, assessed or proposed against the Company, nor has the Company executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax.

(iv) No audit or other examination of any Tax Return of the Company is presently in progress, nor has the Company been notified in writing of any request for such an audit or other examination, and the Company does not have Knowledge that any such action or proceeding is being contemplated. No claim has ever been made in writing by any Tax authority that the Company is or may be subject to taxation in a jurisdiction in which it does not file Tax Returns. No adjustment relating to any Tax Return filed by the Company has been proposed by any Tax authority. The Company is not a party to or bound by any closing or other agreement or ruling with any Governmental Entity with respect to Taxes. There are no matters relating to Taxes under discussion between any taxing authority and the Company.

(v) As of the Balance Sheet Date, the Company does not have any Liabilities for unpaid Taxes which have not been accrued or reserved on the Current Balance Sheet, and the Company has not incurred any Liability for Taxes since the Balance Sheet Date other than in the ordinary course of business.

(vi) The Company has made available to Parent or its legal counsel, copies of all income and other material Tax Returns for the Company for the prior three (3) taxable years.

(vii) There are (and immediately following the Effective Time there will be) no Liens on the assets of the Company relating or attributable to Taxes other than Liens for Taxes not yet due and payable.

(viii) The Company has not been, at any time, a "United States Real Property Holding Corporation" within the meaning of Section 897(c)(2) of the Code.

(ix) The Company has not constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock intended to qualify for tax−free treatment under Section 355 of the Code.

(x) The Company has not engaged in a reportable transaction under Treasury Regulation Section 1.6011-4(b), including a transaction that is the same or substantially similar to one of the types of transactions that the Internal Revenue Service has determined to be a Tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction, as set forth in Treasury Regulation Section 1.6011-4(b)(2).

(xi) The Company has (A) never been a member of an affiliated group (within the meaning of Section 1504(a) of the Code) filing a consolidated federal income Tax Return (other than a group the common parent of which was the Company), (B) never been a party to any Tax sharing, indemnification or allocation agreement, nor does the Company owe any amount under any such agreement, (C) no Liability for the Taxes of any Person under Treasury Regulation § 1.1502-6 (or any similar provision of state, local or non-U.S. law, including any arrangement for group or consortium relief or similar arrangement), as a transferee or successor, by operation of law, by contract (other than pursuant to the customary provisions of an agreement entered into in the ordinary course of business the primary purpose of which is not related to Taxes), or otherwise, and (D) never been a party to any joint venture, partnership or other agreement that could be treated as a partnership for Tax purposes.

(xii) The Company will not be required to include any income or gain or exclude any deduction or loss from Taxable income for any Tax period or portion thereof after the Closing as a result of (A) any change in method of accounting under Section 481 of the Code for any Tax period or portion thereof ending on or prior to the Closing Date, (B) closing agreement under Section 7121 of the Code executed on or prior to the Closing Date, (C) deferred inter-company gain or excess loss account under Treasury Regulations under Section 1502 of the Code in connection with a transaction consummated on or prior to the Closing Date (or in the case of each of (A), (B) and (C), under any similar provision of applicable law), (D) installment sale or open transaction disposition consummated on or prior to the Closing Date, or (E) prepaid amount received on or prior to the Closing Date.

(xiii) The Company uses the cash method of accounting for income Tax purposes.

(xiv) The Company is in full compliance with all terms and conditions of any Tax exemption, Tax holiday or other Tax reduction agreement or order (each, a " **Tax Incentive** "), and the consummation of the transactions contemplated by this Agreement will not have any adverse effect on the continued validity and effectiveness of any such Tax Incentive.

(xv) The Company is not subject to Tax in any country other than its country of incorporation or formation by virtue of having a permanent establishment or other place of business in that country.

(xvi) Notwithstanding anything in this Agreement to the contrary, the Company makes no representations or warranties regarding the amount, value or condition of, or any limitations on, any Tax asset or attribute of the Company, including but not limited to net operating losses and research and development credits, arising in any Pre-Closing Tax Period (each, a " **Tax Attribute** "), or the ability of Parent or any of its affiliates (including the Surviving Corporation) to utilize such Tax Attributes after the Closing.

(c) Executive Compensation Tax . Except as set forth in **Section 2.11(c)** of the Disclosure Schedule, no payment or benefit which will or may be made by the Company with respect to any Employee or any other "disqualified individual" (as defined in Code Section 280G and the regulations thereunder) will be characterized as a "parachute payment," within the meaning of Section 280G(b)(2) of the Code. There is no contract, agreement, plan or arrangement to which the Company is a party or by which it is bound to compensate any Employee for excise taxes paid pursuant to Section 4999 of the Code.

(d) 409A Compliance . **Section 2.11(d)** of the Disclosure Schedule lists each "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) sponsored or maintained by the Company. Each such nonqualified deferred compensation plan has been operated in compliance with Section 409A of the Code. No compensation under any nonqualified deferred compensation plan sponsored or maintained by the Company and in effect at any time prior to the Closing shall be includable in the gross income of any Employee as a result of the operation of Section 409A of the Code. No stock option or other compensatory right to acquire Company Common Stock or other equity of the Company (i) has an exercise price that was less than the fair market value of the underlying equity as of the date such option or right was granted, (ii) has any feature for the deferral of compensation other than the deferral of recognition of income until the later of exercise or disposition of such option or rights, or (iii) has been granted after December 31, 2004, with respect to any class of stock of the Company that is not "service recipient stock" (within the meaning of applicable regulations under Section 409A).

2.12 Restrictions on Business Activities . There is no Contract (non-competition or otherwise), commitment, judgment, injunction, order or decree to which the Company is a party or otherwise binding upon the Company which has or may reasonably be expected to have the effect of (i) prohibiting or impairing in any material respect (A) any business practice of the Company in which it is currently engaged, (B) any acquisition of property (tangible or intangible) by the Company, or (C) the conduct of business by the Company as it is currently conducted, or (ii) otherwise limiting the freedom of the Company to engage in any line of business or to compete with any Person. Without limiting the generality of the foregoing, the Company has not entered into any Contract under which the Company is restricted from selling, licensing, manufacturing, delivering or otherwise distributing or commercializing any Company Intellectual Property or Company Products or Future Products or from providing services to customers or potential customers or any class of customers, in any geographic area, during any period of time, or in any segment of the market, including by means of any grant of exclusivity, or from hiring or soliciting potential employees, consultants, or independent contractors.

2.13 Title to Properties; Absence of Liens and Encumbrances; Condition of Equipment

(a) The Company does not own any real property, nor has the Company ever owned any real property or is the Company party to any agreements to purchase or sell real property.

(b) **Section 2.13(b)** of the Disclosure Schedule sets forth a list of all real property leased, subleased or licensed by or from the Company or otherwise used or occupied by the Company (the " **Leased Real Property** "), the name of the lessor, licensor, sublessor, master lessor and/or lessee, the date and term of the lease, license, sublease or other occupancy right and each amendment thereto, the size of the premises and the aggregate annual rental payable thereunder. The Company has provided Parent with true, correct and complete copies of all leases, lease guaranties, subleases, agreements for the leasing, use or occupancy of, or otherwise granting a right in or relating to the Leased real Property, including all amendments, terminations and modifications thereof (" **Lease Agreements** "); and there are no other Lease Agreements for real property affecting the Leased Real Property or to which the Company is bound. There is not, under any of such Lease Agreements, any existing default (or event which with notice or lapse of time,

or both, would constitute a default) and no rent is past due. The Lease Agreements are valid and effective in accordance with their respective terms, subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. The execution and delivery of this Agreement by the Company does not, and the consummation of the transactions contemplated hereby will not, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or materially impair the rights of the Company or alter the rights or obligations of the sublessor, lessor or licensor under, or give to others any rights of termination, amendment, acceleration or cancellation of any Lease Agreements. The Company currently occupies all of the Leased Real Property for the operation of its business, and there are no other parties occupying, or with a right to occupy, the Leased Real Property. The Leased Real Property is in good operating condition and repair, subject to normal wear and tear, and, as of the date hereof, is suitable for the conduct of the business as presently conducted therein. Neither the operation of the Company on the Leased Real Property nor, to the Company's Knowledge, such Leased Real Property, violates any law relating to such property or operations thereon. The Company has performed all of its obligations under any termination agreements pursuant to which it has terminated any leases of real property that are no longer in effect and has no continuing Liability with respect to such terminated real property leases. The Company is not party to any agreement or subject to any claim that may require the payment of any real estate brokerage commissions, and no such commission is owed with respect to any of the Leased Real Property.

(c) The Company has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible properties and assets, real, personal and mixed, used or held for use in and/or necessary for the conduct of the business of the Company as currently conducted, free and clear of any Liens, except (i) Liens for Taxes not yet due and payable, (ii) such imperfections of title and encumbrances, if any, which do not materially detract from the value or materially interfere with the present use of the property subject thereto or affected thereby, and (iii) Permitted Liens. **Section 2.13(c)** of the Disclosure Schedule sets forth the tangible properties and assets, real, personal and mixed, used and/or held for use in the conduct of the business of the Company with an individual value of more than $10,000 as of the date hereof.

(d) **Section 2.13(d)** of the Disclosure Schedule lists all material items of equipment (the " **Equipment** ") owned or leased by the Company as of the date hereof, and such Equipment is (i) adequate for the conduct of the business of the Company as currently conducted and (ii) in good operating condition, regularly and properly maintained, subject to normal wear and tear.

2.14 Intellectual Property .

(g) Definitions . For all purposes of this Agreement, the following terms shall have the following respective meanings:

" **Company Intellectual Property** " shall mean any and all Intellectual Property Rights that are owned or purported to be owned by the Company.

" **Company Products** " shall mean all products and services developed, manufactured or delivered (excluding products and services not yet commercially released), made commercially available, marketed, distributed, sold, imported for resale or licensed out by or on behalf of the Company since its inception.

" **Future Products** " shall mean (a) all products and services currently under development by or on behalf of the Company that are not yet commercially released and that the

Company intends to make commercially available, distribute, sell, import for resale, or license out within twelve (12) months after the date hereof, and (b) Updates.

" **Intellectual Property Rights** " shall mean worldwide (i) patents and patent applications, (ii) copyrights, copyright registrations and applications for copyright registration, "moral" rights and mask work rights, (iii) trade secrets, (iv) trademarks, trade names and service marks, (v) divisions, continuations, continuations-in-part, renewals, reissuances and extensions of the foregoing (as applicable), and (vi) analogous rights to those set forth above.

" **Near-Term Future Products** " shall mean (a) the products, services, updates, and upgrades listed on **Section 2.14(a)** of the Disclosure Schedule, and (b) all Future Products that the Company intends to make commercially available, distribute, sell, import for resale, or license out on or before March 31, 2015.

" **Registered Intellectual Property** " shall mean patents, trademark registrations, copyright registrations and applications, filings and registrations with any Governmental Entity for the foregoing or for any other Intellectual Property Rights.

" **Shrink−Wrap Code** " shall mean any generally commercially available software in executable code or hosted (software as-a-service) form that is available for a cost of not more than U.S. $5,000 for a perpetual or annual license or subscription (as applicable) for a single user or work station (or $50,000 in the aggregate for all users and work stations). " **Technology** " shall mean any or all of the following (i) works of authorship including computer programs, whether in source code or in executable code form, architecture and documentation, (ii) inventions (whether or not patentable), discoveries and improvements, (iii) proprietary and confidential information, trade secrets and know how, (iv) databases, data compilations and collections and technical data, (v) logos, trade names, trade dress, trademarks and service marks, (vi) domain names, web addresses and sites, (vii) methods and processes, and (viii) devices, prototypes, designs and schematics.

" **Updates** " shall mean all updates to Company Products made after the date hereof.

" **User Documentation** " shall mean explanatory and informational materials concerning the Company Products, in printed or electronic form, which the Company or any of its subsidiaries have released for distribution to end users with such Company Products, which may include manuals, descriptions, user and/or installation instructions, diagrams, printouts, listings, flow-charts and training materials.

(b) Company Products . **Section 2.14(b)** of the Disclosure Schedule lists all Company Products and Future Products by name and version number.

(c) Company Intellectual Property . **Section 2.14(c)** of the Disclosure Schedule lists (i) all Registered Intellectual Property that is part of Company Intellectual Property (" **Company Registered Intellectual Property** "), all domain names registered in the name of the Company and applications and registrations therefor and all material unregistered trademarks used by the Company with respect to Company Products or Future Products, (ii) any formal actions that must be taken by the Company within ninety (90) days of the Closing Date with respect to perfecting, maintaining or renewing any of the foregoing, including the payment of any registration, maintenance or renewal fees or the filing of any documents, applications or certificates, and (iii) any proceedings or actions before any court or tribunal (including the United States Patent and Trademark Office (" **PTO** ") or equivalent authority anywhere in the world) to which the Company is or was a party and in which claims are or were raised

relating to the validity, enforceability, scope, ownership or infringement of any of the Company Registered Intellectual Property, except, in the case of applications, as brought by the applicable examiner thereof in the ordinary course of prosecution of such Company Registered Intellectual Property. With respect to each item of Company Registered Intellectual Property: (1) all necessary registration, maintenance and renewal fees in connection with such item of Company Registered Intellectual Property that are or will be due for payment on or before the Closing Date have been or will be timely paid and all necessary documents and certificates in connection with such item of Company Registered Intellectual Property that are or will be due for filing on or before the Closing Date have been or will be timely filed with the PTO or other relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such item of Company Registered Intellectual Property; (2) each such item is currently in compliance with formal legal requirements (including payment of filing, examination and maintenance fees and proofs of use); (3) each such item is sustaining, and, other than any pending application, valid and enforceable, and (4) each such item is not subject to any unpaid maintenance fees or taxes. To the Knowledge of the Company, there are no facts, information, or circumstances, including any information or facts that would constitute prior art, that would render any of the Company Registered Intellectual Property invalid or unenforceable, or would negatively affect any pending application for any Company Registered Intellectual Property, in each case, except as disclosed to the applicable examiner thereof or contained in the applicable file wrapper. The Company has not misrepresented, or failed to disclose, any facts or circumstances Known to the Company in any application for any Company Registered Intellectual Property that would constitute fraud or a misrepresentation with respect to such application or that would otherwise negatively affect the enforceability of any Company Registered Intellectual Property.

(d) Transferability of Intellectual Property. All Company Intellectual Property will be fully transferable, alienable and licensable by the Company without restriction and without payment of any kind to any third party.

(e) Title to Intellectual Property. The Company is the sole and exclusive owner of each item of Company Intellectual Property, free and clear of any Liens other than Permitted Liens and those set forth in **Section 2.14(e)** of the Disclosure Schedule. The Company has the sole and exclusive right to bring a claim or suit against a third party for infringement or misappropriation of the Company Intellectual Property. Except for trade secrets that lost their status as trade secrets upon the release of a new Company Product, upon the issuance of a patent or publication of a patent application, or as a result of a good faith business decision to disclose such trade secret, and except for trademarks, trade names and service marks that the Company made a good faith business decision to stop using, the Company has not (i) transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property Rights that are or, as of the time of such transfer or exclusive license, were material to the Company, to any other Person or (ii) permitted the rights of the Company in any Company Intellectual Property that is or was at the time material to the Company to enter into the public domain.

(f) Third Party Intellectual Property Rights. Other than Technology and Intellectual Property Rights licensed to the Company, or which the Company has rights to use, under (i) licenses for the Open Source Software (as defined below) listed in **Section 2.14(n)** of the Disclosure Schedule, (ii) licenses for Shrink-Wrap Code, (iii) agreements that do not materially differ in substance from the Standard Form Agreement (as defined below) attached to **Section 2.14(g)(2)** of the Disclosure Schedule, (iv) Employee Proprietary Information Agreements and Consultant Proprietary Information Agreements (each as defined below) and (v) the licenses set forth in **Section 2.14(f)** of the Disclosure Schedule, the Company Intellectual Property includes all Technology and Intellectual Property Rights that are used in or necessary to the conduct of the business of the Company as it currently is conducted and, with respect to Future Products, as it is currently proposed to be conducted by the Company, including the design, development, manufacture, delivery, use, marketing, import for resale, distribution, licensing out and sale

of any Company Product, as each is or has been conducted by or on behalf of the Company. The Company owns, or possesses licensed copies of, all Technology that is used in or necessary to the conduct of the business of the Company as currently conducted, and, with respect to Future Products, as currently proposed to be conducted, by the Company.

(g) Standard Form Agreements . Copies of the Company's standard form(s) of non-disclosure agreement and the Company's standard form(s), including attachments, of non-exclusive licenses of the Company Products and non-exclusive agreements to provide the Company Products to customers or end-users (collectively, the " **Standard Form Agreements** ") are attached to **Section 2.14(g) (1)** and **2.14(g)(2)** , respectively, of the Disclosure Schedule. Other than (i) nondisclosure agreements and (ii) nonexclusive licenses of the Company Products and nonexclusive agreements to provide the Company Products (in each case of (i) and (ii), pursuant to any agreement that has been entered into in the ordinary course of business that does not materially differ in substance from the Standard Form Agreement), **Section 2.14(g)(3)** of the Disclosure Schedule lists all contracts, licenses and agreements to which the Company is a party and under which the Company has granted, licensed or provided any Company Intellectual Property and/or Technology to third parties (other than rights granted to contractors or vendors to use Company Intellectual Property and Technology for the sole benefit of the Company).

(h) No Infringement by the Company . The operation of the business of the Company as currently conducted and, with respect to Future Products, as currently proposed by the Company to be conducted, including the design, development, use, import, branding, advertising, promotion, marketing, manufacture, delivery, sale and licensing out of any Company Product, as each is or has been conducted by or on behalf of the Company, has not and does not infringe or misappropriate and will not infringe or misappropriate when conducted in substantially the same manner by Parent and/or the Company following the Closing, any Intellectual Property Rights of any Person, violate any right of any Person (including any right to privacy or publicity) or constitute unfair competition or trade practices under the laws of any jurisdiction; *provided* , *however* , that the foregoing representations and warranties solely as to the operation of the business as proposed to be conducted by the Company (but not as such has been or is conducted by the Company), with respect to Future Products (other than Updates) but not Near-Term Future Products or Updates, are made to the Company's Knowledge; *provided, further* that the foregoing representations and warranties do not extend to infringement, misappropriation or violation of Intellectual Property Rights of any Person occurring after the date hereof that the Escrow Representative (acting on behalf of the Indemnifying Stockholders) can show, based on a preponderance of the evidence, would not have occurred (a) but for a change made by or at the direction of Parent to any of the Company Products or Future Products or to the Company's business or development plan, except for changes made to address any problem or issue with respect to any Company Products or Future Products, including those problems and issues identified in **Section 2.14(r)** , or (b) but for the combination of any Company Product or Future Product with other Technology, made by or at the direction of Parent. As of the date hereof, the Company has not received notice from any Person claiming that such operation, any Company Product, Future Product, any Technology used by the Company or any Company Intellectual Property infringes or misappropriates any Intellectual Property Rights of any Person or constitutes unfair competition or trade practices under the laws of any jurisdiction (nor does the Company have Knowledge of any basis for any notice that would have a material adverse effect on the Company, its business or its financial condition). No Company Intellectual Property is subject to any proceeding or outstanding decree, order, judgment or settlement agreement or stipulation that restricts in any manner the use, provision, transfer, assignment or licensing thereof by the Company or may affect the validity or enforceability of any Company Intellectual Property. Notwithstanding anything to the contrary in this Agreement, this **Section 2.14(h)** contains the only representations or warranties made by the Company with respect to infringement, misappropriation or violation of Intellectual Property Rights of any other Person.

(i) Third Party Rights. Except as set forth in **Section 2.14(i)** of the Disclosure Schedule, no third party that has licensed Intellectual Property Rights or provided any Technology to the Company thereof has retained sole ownership of or exclusive license rights under any Intellectual Property Rights in any improvements or derivative works made solely or jointly by the Company thereof under such license.

(j) Restrictions on Business. With respect to any Contracts to which the Company is a party, neither this Agreement nor the transactions contemplated by this Agreement will cause: (i) Parent, any of its subsidiaries or the Company to grant to any third party any right to or with respect to any Intellectual Property Rights owned by, or licensed to, any of Parent, any of its subsidiaries or the Company (other than rights granted by the Company on or prior to the Closing Date under Intellectual Property Rights owned by the Company as of the Closing Date), (ii) Parent, any of its subsidiaries or the Company, to be bound by, or subject to, any non-compete or other material restriction on the operation or scope of their respective businesses (excluding any non-compete or other material restriction that arises from any agreement to which the Company is not a party) or (iii) Parent, any of its subsidiaries or the Company to be obligated to pay any royalties or other license fees with respect to Intellectual Property Rights of any third party in excess of those payable by the Company in the absence of this Agreement or the transactions contemplated hereby.

(k) No Third Party Infringement. To the Knowledge of the Company, no Person is infringing or misappropriating any Company Intellectual Property. The Company has the exclusive right to bring actions against any Person that is infringing or misappropriating any Company Intellectual Property and to retain for itself any damages recovered in any such action.

(l) Proprietary Information Agreements. Copies of the Company's standard form of proprietary information, confidentiality and assignment agreement for employees (the " **Employee Proprietary Information Agreement** ") and the Company's standard form of consulting agreement containing proprietary information, confidentiality and assignment provisions (the " **Consultant Proprietary Information Agreement** ") are attached to **Section 2.14(l)(1)** and **Section 2.14(l)(2)** , respectively, of the Disclosure Schedule. All current and former employees of the Company, and all current and former consultants of the Company and its subsidiaries and all other individuals, in each case, who have been involved in the creation, invention or development of Company Intellectual Property and Technology for or on behalf of the Company or its subsidiaries (each, a " **Contributor** "), have executed the applicable form of agreement. Without limiting the foregoing, no Contributor owns or has any right to Company Intellectual Property, nor has any Contributor made any assertions with respect to any alleged ownership or rights. All current and former employees of the Company and each of its subsidiaries who are or were, at the time of employment, residents of countries that recognize moral rights or whose employment relationships are or were governed by applicable laws in countries that recognize moral rights have executed written agreements with the Company or the applicable subsidiary that to the fullest extent permitted under applicable law, waive for the benefit of the Company, all moral rights in any works of authorship relating to the business of the Company or any of its subsidiaries, including, as applicable the right to the integrity of the work, the right to be associated with the work as its author by name or under a pseudonym and the right to remain anonymous. The Company has taken reasonable steps that are required or necessary to protect the confidentiality of confidential information and trade secrets of the Company or of any third party that has provided any confidential information or trade secrets to the Company.

(m) No Government Funding. No government funding, facilities or resources of a university, college, other educational institution, multi-national, bi-national or international government-affiliated organization or research center was used in the development of the Company Intellectual Property or any Technology for the Company.

(n) Open Source Software . **Section 2.14(n)** of the Disclosure Schedule lists all software that is distributed as "open source software" or under a similar licensing or distribution model (including but not limited to the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License) (collectively, " **Open Source Software** ") that has been incorporated into or used in the delivery of any Company Product or Future Product in any way and describes the manner in which such Open Source Software was incorporated (such description shall include, without limitation, whether (and, if so, how) the Open Source Software was modified and/or distributed by the Company and whether (and if so, how) such Open Source Software was incorporated into and linked in any Company Intellectual Property). The Company has not used Open Source Software in any manner that would or could (other than with respect to the Open Source Software itself) (i) require the disclosure or distribution in source code form of any Company Intellectual Property, (ii) require the licensing of any Company Intellectual Property for the purpose of making derivative works, (iii) impose any restriction on the consideration to be charged for the distribution of any Company Intellectual Property, (iv) create, or purport to create, obligations for the Company with respect to Intellectual Property Rights owned by the Company or grant, or purport to grant, to any third party, any rights or immunities under Intellectual Property Rights owned by the Company, or (v) impose any other material limitation, restriction, or condition on the right of the Company to use or distribute any Company Intellectual Property. With respect to any Open Source Software that is or has been used by the Company in any way, the Company has been and is in compliance with all applicable licenses with respect thereto.

(o) Source Code . Neither the Company, nor any other Person acting on its behalf has disclosed, delivered or licensed to any Person, agreed to disclose, deliver or license to any Person, or permitted the disclosure or delivery to any escrow agent or other Person of, any source code for any Company Product or Future Product except for disclosures to employees, contractors or consultants under binding written agreements that prohibit use or disclosure except in the performances of services to the Company.

(p) Personally Identifiable Information . **Section 2.14(p)** of the Disclosure Schedule describes each category of Personal Data collected by or for the Company through any means, specifying which Company Products collect, store, or otherwise process such categories of Personal Data. The Company, all Company Products, all Future Products, all websites operated by or for the Company, and all third parties acting on behalf of the Company comply, and have always complied with all applicable (i) Laws, (ii) Company Privacy Policies, (iii) obligations contained within Contracts to which it is or was a party or by which it is or was bound, (iv) rules of applicable self-regulatory or other industry organizations by which it is or was bound (including, solely to the extent applicable, the PCI Data Security Standard and any other rules of the Payment Card Industry Security Standards Council), (v) fiduciary obligations, and (vi) published industry standards (to which published industry standards the Company has committed publicly or contractually to adhere, or has stated that it will adhere to in any internal policy document) (collectively, " **Privacy Laws and Requirements** "), relating to (A) the privacy of users of all websites operated by or for the Company, and all Company Products and Future Products; (B) marketing to, or other communications with, consumers or to consumer protection; and (C) the collection, use, storage, retention, disclosure, security, transfer, disposal, interception, or any other processing of any Personal Data or Customer Data by or for the Company or by third parties having authorized access to any Personal Data or Customer Data maintained by or for the Company. The Company Products and Future Products, and, to the Knowledge of the Company, the use thereof by customers for their intended or advertised purposes by customers in accordance with the Company's Contracts with such customers, do not violate any Privacy Laws and Requirements. The execution, delivery and performance by the Company of this Agreement, and the transfer of all Personal Data and Customer Data maintained by or for the Company to Parent, is and will be compliant with all Privacy

Laws and Requirements. Copies of all current Company Privacy Policies have been provided to Parent. Each Company Privacy Policy and all materials distributed by the Company have at all times made all disclosures to users and customers required of the Company by all Privacy Laws and Requirements, and none of such disclosures made or contained in any such Company Privacy Policy or in any such materials has been inaccurate, misleading or deceptive or in violation of any Privacy Laws and Requirements. The Company has obtained a written agreement from each subcontractor to which it has supplied Personal Data, or permitted to collect or process Personal Data or Customer Data on the Company's behalf, that binds the subcontractor to implement reasonable and appropriate means for protecting such Personal Data and Customer Data consistent with all Privacy Laws and Requirements. There is not and has not been any complaint to, or any audit, proceeding, investigation (formal or informal) or claim against, any of the Company or any of their customers (in the case of customers, to the extent relating to the practices of the Company, any Company Product, or any website operated for or by the Company) by any private party, the Federal Trade Commission, any state attorney general or similar state official or any other Governmental Entity, in each case with respect to the collection, use, retention, disclosure, transfer, interception, storage, disposal, or other processing of Personal Data or Customer Data.

(q) Protection of Personal Data and Customer Data . With respect to all Personal Data and Customer Data collected, stored, used, processed, or maintained by or for the Company, the Company has at all times taken commercially reasonable steps (including implementing and monitoring compliance with reasonable measures with respect to technical and physical security), including without limitation a written information security program that includes reasonable controls that have been regularly tested and reviewed, designed to ensure that such Personal Data and Customer Data are protected against loss and against unauthorized access, use, modification, processing, disclosure or other misuse. No unauthorized access to or other misuse of such Personal Data or Customer Data, maintained by or for the Company, has occurred.

(r) Bugs . The Company has made available to Parent its current (as of the date hereof) list of known bugs maintained by its development or quality control groups with respect to the Company Products. The Company has disclosed in writing to Parent all material information relating to any Known problem or issue with respect to any of the Company Products which adversely affects, or may reasonably be expected to adversely affect, the value, functionality or fitness for the intended purpose of such Company Products. Without limiting the generality of the foregoing, (i) except as disclosed by the Company in writing to Parent, there have been, and are, no material defects, malfunctions or nonconformities in any of the Company Products; (ii) there have been, and are, no claims asserted against the Company or, to the Knowledge of the Company, any of its customers or distributors, in each case related to the non-performance of the Company Products; and (iii) the Company has not been and is not required to recall any Company Products.

(s) Contaminants . All Company Products (and all parts thereof) and the Technology used to deliver all Company Products are free of any and all "back door," "time bomb," "Trojan horse," "worm," "drop dead device," "virus" or other software routines or hardware components that permit unauthorized access to, or the unauthorized disablement or erasure of, such Company Products and the Technology used to deliver all Company Products (or all parts thereof) or data or other software of users (" **Contaminants** "). The Company uses commercially reasonable measures to prevent the introduction of Contaminants into Company Products and the Technology used to deliver all Company Products.

(t) Security Measures . The Company has appropriate disaster recovery, business continuity, and security plans and procedures for the operation of its business, and has taken reasonable steps consistent with applicable Laws, applicable guidelines published by any Government Entity with respect to such Laws, Contracts (to which the Company is or has been a party) and industry standards (to which published industry standards the Company has committed publicly or contractually to adhere,

or has stated that it will adhere to in any internal policy document) to safeguard the Company Products, the Future Products, the Technology used to deliver all Company Products and Future Products (and all parts thereof), and the information technology systems utilized in the operation of the business of the Company, from unauthorized intrusions or breaches of security. There have been no unauthorized intrusions or breaches of the security of such Company Products, Future Products, Technology, or systems. Such disaster recovery and security plans, procedures and facilities for its business are specified in **Section 2.14(t)** of the Disclosure Schedule.

(u) Performance . All Company Products perform in all material respects in accordance with the design specifications to which such Company Products were developed. The User Documentation associated with any Company Product contains no material errors, other than of a typographical nature. All installation services, programming services, integration services, repair services, maintenance services, support services, training services, upgrade services and other services that have been performed by the Company were performed in all material respects in conformity with all applicable warranties made by the Company and all applicable Laws.

2.15 Material Contracts .

(a) Except as set forth in **Section 2.15(a)** of the Disclosure Schedule (specifying the appropriate paragraph), as of the date hereof the Company is not a party to, or bound by:

(i) (A) any employment, contractor or consulting agreement, contract or commitment with an employee or individual consultant, contractor, or salesperson, other than any at-will employment or services agreement providing no severance or other post-termination benefits (other than continuation coverage required by law), (B) any Contract to grant any severance, termination or change-of-control pay (in cash or otherwise) to any Employee, or (C) any consulting or sales agreement, contract, or commitment with a firm or other organization;

(ii) any agreement or plan, including any stock option plan, stock appreciation rights plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated or may be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(iii) any fidelity or surety bond or completion bond;

(iv) any lease of any real or personal property;

(v) any agreement of indemnification or guaranty, other than solely as a result of indemnification provisions contained in agreements with customers, partners, suppliers, distributors, licensors, or licensees entered into in the ordinary course of business and made available to Parent;

(vi) any agreement, contract or commitment relating to capital expenditures and involving future payments in excess of $10,000 individually or $25,000 in the aggregate;

(vii) any Contract relating to the disposition or acquisition of assets or any interest in any business enterprise outside the ordinary course of the Company’s business;

(viii) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other agreements or instruments relating to the borrowing of money or extension of credit;

(ix) any purchase order or contract for the purchase of materials or services involving future payments in excess of $50,000 annually;

(x) any joint marketing, joint venture, partnership, strategic alliance, affiliate or joint development agreement;

(xi) any hedging, swap, derivative, ISDA or similar Contract;

(xii) any dealer, distribution, sales representative, original equipment manufacturer, manufacturing, value added, remarketer, reseller, or independent software vendor or other Contract for use or distribution of the products, technology or services of the Company; or

(xiii) any other agreement, contract or commitment not otherwise disclosed in **Section 2.15 (a)** of the Disclosure Schedule that involves $25,000 individually or $75,000 in the aggregate or more.

(b) The Company has made available to Parent true and complete copies of each Contract that has been requested by Parent or its counsel, which shall be deemed to include, but shall not be limited to, all Contracts required to be disclosed pursuant to **Sections 2.2** , **2.12** , **2.13** , **2.14** (including, for the avoidance of doubt, each Contract entered into on a Standard Form Agreement) and **2.15** (each together with each material nondisclosure, confidentiality or similar agreement, a " **Material Contract** " and collectively, the " **Material Contracts** ") and each of the other documents listed on the Disclosure Schedule.

(c) Each Material Contract to which the Company is a party or any of its properties or assets (whether tangible or intangible) is subject is a valid and binding agreement of the Company, and, to the Knowledge of the Company, each other party thereto, enforceable against the Company, and, to the Knowledge of the Company, each other party thereto, in accordance with its terms, and is in full force and effect with respect to the Company and, to the Knowledge of the Company, each other party thereto, subject to (i) laws of general application relating to bankruptcy, insolvency fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, and (ii) general principles of equity. The Company is in compliance with and has not materially breached, violated or defaulted under, or received notice that it has materially breached, violated or defaulted under, any of the terms or conditions of any Material Contract, nor to the Knowledge of the Company is any party obligated to the Company pursuant to any Material Contract subject to any material breach, violation or default thereunder, nor does the Company have Knowledge of any presently existing facts or circumstances that, with the lapse of time, giving of notice, or both would constitute such a material breach, violation or default by the Company or any such other party that would have a material adverse effect on the Company, its business or its financial condition.

(d) The Company has fulfilled all material obligations required to have been performed by the Company pursuant to each Material Contract.

(e) All outstanding Indebtedness for borrowed money of the Company may be prepaid without penalty.

2.16 Interested Party Transactions.

(a) No officer, director or Key Employee (nor, to the Knowledge of the Company, any Company Stockholder or any immediate family member of any officer, director, Key Employee or Company Stockholder, or any trust, partnership or corporation in which any of such Persons has or has had an interest) (each, an " **Interested Party** "), has or has had, directly or indirectly, (i) any interest in any Person which furnished or sold, or furnishes or sells, services, products, or technology that the Company furnishes or sells, or proposes to furnish or sell, or (ii) any interest in any Person that purchases from or sells or furnishes to the Company, any goods or services, or (iii) any interest in, or is a party to, any Contract to which the Company is a party; *provided* , *however* , that ownership of no more than one percent (1%) of the outstanding voting stock of a publicly traded corporation shall not be deemed to be an "interest in any Person" for purposes of this **Section 2.16** .

(b) All transactions pursuant to which any Interested Party has purchased any services, products, or technology from, or sold or furnished any services, products or technology to, the Company that were entered into on or after the inception of the Company have been on an arm's-length basis on terms no less favorable to the Company than would be available from an unaffiliated party.

2.17 Company Authorizations. **Section 2.17** of the Disclosure Schedule sets forth each consent, license, permit, grant or other authorization (i) pursuant to which the Company currently operates or holds any interest in any of its properties, or (ii) which is required for the operation of the Company's businesses as currently conducted or the holding of any such interest (collectively, " **Company Authorizations** "). All of the Company Authorizations have been issued or granted to the Company, are in full force and effect and constitute all Company Authorizations required to permit the Company to operate or conduct its business or hold any interest in its properties or assets.

2.18 Litigation. There is no action, suit, claim or proceeding of any nature pending, or to the Knowledge of the Company, threatened, against the Company, its properties (tangible or intangible) or any of the Company's officers or directors (in their capacities as such), nor, to the Knowledge of the Company, are there any presently existing facts or circumstances that would constitute a reasonable basis for any action, suit, claim or proceeding that would have a material adverse effect on the Company, its business or its financial condition. There is no investigation, audit, or other proceeding pending or, to the Knowledge of the Company, threatened, against the Company, its properties (tangible or intangible) or any of the Company's officers or directors (in their capacities as such) by or before any Governmental Entity, nor, to the Knowledge of the Company, are there any presently existing facts or circumstances that would constitute a reasonable basis for any investigation, audit or other proceeding that would have a material adverse effect on the Company, its business or its financial condition. No Governmental Entity has at any time challenged or questioned the legal right of the Company to conduct its operations as presently or previously conducted or as currently contemplated to be conducted. There is no action, suit, claim or proceeding of any nature pending or, to the Knowledge of the Company, threatened against any director or officer or other Person who has a contractual right or a right pursuant to the Charter Documents, Delaware Law or California Law to indemnification from the Company related to the facts and circumstances existing prior to the Closing Date, nor are there, to the Knowledge of the Company, any presently existing facts or circumstances that would give rise to such an action, suit, claim or proceeding that would have a material adverse effect on the Company, its business or its financial condition.

2.19 Minute Books. The minutes of the Company made available to Parent contain complete and accurate records of all material actions taken, and summaries of all meetings held, by the Company Stockholders, the Board of Directors of the Company (and any committees thereof) since the time of incorporation of the Company. The Company has not engaged in any material transaction, maintained any

bank account or used any material amount of corporate funds except as reflected in its normally maintained books and records. At the Closing, the minute books and other books and records will be in the possession of the Company.

2.20 Environmental Matters

(a) No amount of any substance that has been designated by any Governmental Entity or by applicable federal, foreign, state or local law to be radioactive, toxic, hazardous or otherwise a danger to health, reproduction or the environment, including PCBs, asbestos, petroleum, and urea formaldehyde and all substances listed as hazardous substances pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or defined as a hazardous waste pursuant to the United States Resource Conservation and Recovery Act of 1976, as amended, and the regulations promulgated pursuant to said laws (a " **Hazardous Material** ") is present in, on or under any property, including the land and the improvements, ground water and surface water thereof, that the Company has at any time owned, operated, occupied or leased (excluding office and janitorial supplies properly and safely maintained).

(b) The Company has not exposed its employees or others to Hazardous Materials in violation of any law or in a manner that would result in Liability to the Company, nor has the Company disposed of, transported, sold, or manufactured any product containing a Hazardous Material (any or all of the foregoing being collectively referred to herein as " **Hazardous Materials Activities** ") in violation of any rule, regulation, license, permit, treaty or statute promulgated by any Governmental Entity to prohibit, regulate or control Hazardous Materials or any Hazardous Materials Activities.

(c) The Company does not have, and is not required to have any environmental approvals, permits, licenses, clearances or consents in connection with its business or facilities. The Company has not entered into any agreement that may require it to guarantee, reimburse, pledge, defend, hold harmless or indemnify any other party with respect to Liabilities arising out of or relating to the Hazardous Materials Activities of the Company or any third party.

(d) The Company is not in violation of any applicable statute, law, or regulation relating to the environment or occupational health and safety, and to the Knowledge of the Company, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation.

2.21 Brokers' and Finders' Fees . Except as set forth in **Section 2.21** of the Disclosure Schedule, the Company has not incurred, or will not incur, directly or indirectly, any Liability for brokerage or finders' fees or agents' commissions, fees related to investment banking or similar advisory services or any similar charges in connection with this Agreement or any transaction contemplated hereby, nor will Parent or the Company incur, directly or indirectly, any such Liability based on arrangements made by or on behalf of the Company.

2.22 Employee Benefit Plans and Compensation .

(a) Definitions . For all purposes of this Agreement, the following terms shall have the following respective meanings:

" **COBRA** " shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

“ **Company Employee Plan** ” shall mean any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, termination pay, deferred compensation, performance awards, stock or stock related awards, welfare benefits, fringe benefits or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded, including each “employee benefit plan,” within the meaning of Section 3(3) of ERISA which is or has been maintained, contributed to, or required to be contributed to, by the Company or any ERISA Affiliate for the benefit of any Employee, or with respect to which the Company any ERISA Affiliate has or may have any Liability and any International Employee Plan but excluding any Employee Agreement.

“ **DOL** ” shall mean the United States Department of Labor.

“ **Employee** ” shall mean any current or former employee, consultant, independent contractor or director of the Company or any ERISA Affiliate.

“ **Employee Agreement** ” shall mean each management, employment, severance, separation, settlement, consulting, contractor, relocation, bonus, repatriation, expatriation, loan, visa, work permit or other written agreement, or contract (including, any offer letter or any agreement providing for acceleration of Company Options or Company Capital Stock subject to a right of repurchase in favor of the Company) between the Company or any ERISA Affiliate and any Employee, and under which the Company or any ERISA Affiliate has or may have any Liability.

“ **ERISA** ” shall mean the Employee Retirement Income Security Act of 1974, as amended.

“ **ERISA Affiliate** ” shall mean each Subsidiary of the Company and any other current or former Person or entity under common control with the Company within the meaning of Section 414(b), (c), (m) or (o) of the Code, and the regulations issued thereunder.

“ **FMLA** ” shall mean the Family Medical Leave Act of 1993, as amended.

“ **HIPAA** ” shall mean the Health Insurance Portability and Accountability Act of 1996, as amended.

“ **International Employee Plan** ” shall mean each Company Employee Plan or Employee Agreement that has been adopted or maintained by the Company or any ERISA Affiliate, whether formally or informally, or with respect to which the Company or any ERISA Affiliate will or may have any Liability, for the benefit of Employees who perform services outside the United States.

“ **IRS** ” shall mean the United States Internal Revenue Service.

“ **Pension Plan** ” shall mean each Company Employee Plan that is an “employee pension benefit plan,” within the meaning of Section 3(2) of ERISA.

“ **WARN** ” shall mean the Worker Adjustment and Retraining Notification Act.

(b) Schedule . **Section 2.22(b)** of the Disclosure Schedule contains an accurate and complete list of each material Company Employee Plan and each material Employee Agreement. Neither the Company nor any ERISA Affiliate has made any plan or commitment to establish or enter into any new Company Employee Plan or Employee Agreement, to modify any Company Employee Plan or Employee Agreement (except to the extent required by law or to conform any such Company Employee Plan

or Employee Agreement to the requirements of any applicable law, in each case as previously disclosed to Parent in writing, or as required by this Agreement) or the terms of the applicable Company Employee Plan or Employee Agreement.

(c) Documents . The Company has made available to Parent (i) correct and complete copies of all documents embodying each Company Employee Plan and each Employee Agreement including all amendments thereto and all related trust documents, (ii) the three most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code or by any other applicable law in connection with each Company Employee Plan, (iii) if the Company Employee Plan is funded, the most recent annual and periodic accounting of such Company Employee Plan assets, (iv) the most recent summary plan description together with the summary(ies) of material modifications thereto, if any, required under ERISA or by any other applicable law with respect to each Company Employee Plan, (v) all material written agreements and contracts relating to each Company Employee Plan, including administrative service agreements and group insurance contracts, (vi) each affirmative action plan, if applicable, (vii) all communications material to any Employee or Employees relating to any Company Employee Plan and any proposed Company Employee Plan, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any Liability to the Company, (viii) all correspondence to or from any Governmental Entity relating to any Company Employee Plan other than routine correspondence in the normal course of operations of such Company Employee Plan, (ix) model COBRA forms and related notices, (x) policies pertaining to fiduciary liability insurance covering the fiduciaries for each Company Employee Plan, (xi) all discrimination tests for each Company Employee Plan for the three most recent plan years, and (xii) the most recent IRS (or any other applicable tax authority) determination or opinion letter issued with respect to each Company Employee Plan.

(d) Employee Plan Compliance . The Company and its ERISA Affiliates have performed all material obligations required to be performed by them under, are not in default or violation of, and, as of the date hereof, neither the Company nor any ERISA Affiliate has any Knowledge of any material default or violation by any other party to, any Company Employee Plan and Employee Agreement, and each Company Employee Plan and Employee Agreement has been established and maintained in accordance with its terms and in material compliance with all applicable laws, statutes, orders, rules and regulations, including ERISA or the Code. Any Company Employee Plan intended to be qualified under Section 401(a) of the Code has obtained a favorable determination letter (or opinion letter, if applicable) as to its qualified status under the Code. For each Company Employee Plan that is intended to be qualified under Section 401(a) of the Code, there has been no event or condition that has adversely affected or is likely to adversely affect such qualified status. No “prohibited transaction,” within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Company Employee Plan. There are no actions, suits or claims pending or, to the Knowledge of the Company or any ERISA Affiliates, threatened or reasonably anticipated (other than routine claims for benefits) against any Company Employee Plan or against the assets of any Company Employee Plan. Each Company Employee Plan can be amended, terminated or otherwise discontinued after the Effective Time in accordance with its terms, without material Liability to Parent, the Company or any ERISA Affiliate (other than ordinary administration expenses). There are no audits, inquiries or proceedings pending or to the Knowledge of the Company or any ERISA Affiliates, threatened by the IRS, DOL, or any other Governmental Entity with respect to any Company Employee Plan. Neither the Company nor any ERISA Affiliate is subject to any penalty or Tax with respect to any Company Employee Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code. The Company and each ERISA Affiliate have timely made all contributions and other payments required by and due under the terms of each Company Employee Plan.

(e) No Pension Plan. Neither the Company nor any ERISA Affiliate has ever maintained, established, sponsored, participated in, or contributed to, any Pension Plan subject to Part 3 of Subtitle B of Title I of ERISA, Title IV of ERISA or Section 412 of the Code.

(f) No Self Insured Plan. Neither the Company nor any ERISA Affiliate has ever maintained, established, sponsored, participated in or contributed to any self-insured group health plan (within the meaning of Section 5000(b)(1) of the Code) that provides benefits to Employees (including any such plan pursuant to which a stop loss policy or contract applies).

(g) Collectively Bargained, Multiemployer and Multiple Employer Plan. At no time has the Company or any ERISA Affiliate contributed to or been obligated to contribute to any multiemployer plan (as defined in Section 3(37) of ERISA). Neither the Company nor any ERISA Affiliate has at any time ever maintained, established, sponsored, participated in or contributed to any multiple employer plan or to any plan described in Section 413 of the Code.

(h) No Post Employment Obligations. Except as set forth in **Section 2.22(h)** of the Disclosure Schedule, no Company Employee Plan or Employee Agreement provides, or reflects or represents any Liability to provide, post termination or retiree life insurance, health or other employee welfare benefits to any Person for any reason, except as may be required by COBRA or other applicable statute and except for continuation of coverage through the month of termination if required pursuant to such Company Employee Plan, and the Company has never represented, promised or contracted (whether in oral or written form) to any Employee (either individually or to Employees as a group) or any other Person that such Employee(s) or other Person would be provided with life insurance, health or other employee welfare benefits post-termination, except to the extent required by statute.

(i) COBRA; FMLA; HIPAA. The Company and each ERISA Affiliate has, prior to the Effective Time, complied with COBRA, FMLA, HIPAA, the Women's Health and Cancer Rights Act of 1998, the Newborns' and Mothers' Health Protection Act of 1996, and any similar provisions of foreign or state law applicable to its Employees or compliance with those provisions has been delegated to a third-party administrator, and the Company does not have Knowledge of any non-compliance by such administrator. The Company has no material unsatisfied obligations to any Employees or qualified beneficiaries pursuant to COBRA, HIPAA or any state law governing health care coverage or extension.

(j) Effect of Transaction. Except as set forth in **Section 2.22(j)** of the Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby or any termination of employment or service in connection therewith will (i) result in any payment (including severance, golden parachute, bonus or otherwise), becoming due to any Employee, (ii) result in any forgiveness of Indebtedness, (iii) materially increase any benefits otherwise payable by the Company or (iv) result in the obligations to fund, or the acceleration of the time of payment or vesting of, any such benefits, except as required under Section 411(d)(3) of the Code.

(k) Employment Matters. The Company is in compliance with all applicable foreign, federal, state and local laws, rules and regulations, collective bargaining agreements and arrangements, extension orders and binding customs respecting employment, employment practices, terms and conditions of employment, worker classification, tax withholding, prohibited discrimination, equal employment, fair employment practices, meal and rest periods, immigration status, employee safety and health and wages and hours (including overtime wages), and in each case, with respect to Employees: (i) has withheld and reported all amounts required by law or by agreement to be withheld and reported with respect to wages, salaries and other payments to Employees, (ii) is not liable for any arrears of wages, severance pay or any Taxes or any penalty for failure to comply with any of the foregoing, and (iii) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of

any Governmental Entity, with respect to unemployment compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice). There are no actions, suits, claims or administrative matters pending or, to the Knowledge of the Company, threatened or reasonably anticipated against the Company or any of its Employees relating to any Employee, Employee Agreement or Company Employee Plan. There are no pending or, to the Knowledge of the Company, threatened or reasonably anticipated claims or actions against Company or any Company trustee under any worker's compensation policy or long term disability policy. The Company is not party to a conciliation agreement, consent decree or other agreement or order with any federal, state or local agency or governmental authority with respect to employment practices. The services provided by each of the Company's and its ERISA Affiliates' Employees are terminable at the will of the Company and its ERISA Affiliates and any such termination would result in no Liability to the Company or any ERISA Affiliate other than claims for severance pay and benefits as set forth below. **Section 2.22(k)** of the Disclosure Schedule lists all Liabilities of the Company to any Employee that result from the termination by the Company or Parent of such Employee's employment or provision of services, a change of control of the Company, or a combination thereof. The Company does not have any material Liability with respect to any misclassification of: (a) any Person as an independent contractor rather than as an employee, (b) any employee leased from another employer, or (c) any employee currently or formerly classified as exempt from overtime wages.

(l) Labor. No strike, labor dispute, slowdown, concerted refusal to work overtime, or work stoppage or labor strike against the Company is pending, or to the Knowledge of the Company, threatened, or reasonably anticipated. The Company does not have Knowledge of any activities or proceedings of any labor union to organize any current employees. There are no actions, suits, claims, labor disputes or grievances pending or, to the Knowledge of the Company, threatened or reasonably anticipated relating to any labor matters involving any current employee, including charges of unfair labor practices. The Company has not engaged in any unfair labor practices within the meaning of the National Labor Relations Act. The Company is not presently, nor has it been in the past, a party to, or bound by, any collective bargaining agreement or arrangement or union contract with respect to Employees, and no collective bargaining agreement is being negotiated by the Company. The Company has not taken any action which would constitute a "plant closing" or "mass layoff" within the meaning of the WARN Act or similar state or local law, issued any notification of a plant closing or mass layoff required by the WARN Act or similar state or local law, or incurred any Liability or obligation under WARN or any similar state or local law that remains unsatisfied. No terminations prior to the Closing Date would trigger any notice or other obligations under the WARN Act or similar state or local law.

(m) No Interference or Conflict. To the Knowledge of the Company, no stockholder, director, officer, employee or consultant of the Company is obligated under any Contract or subject to any judgment, decree, or order of any court or administrative agency that would interfere with such Person's efforts to promote the interests of the Company or that would interfere with the Company's business. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business as presently conducted or proposed to be conducted nor any activity of such officers, directors, employees or consultants in connection with the carrying on of the Company's business as presently conducted or proposed to be conducted will, to the Knowledge of the Company, conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any Contract under which any of such officers, directors, employees, or consultants are now bound.

(n) International Employee Plans. Each International Employee Plan has been established, maintained and administered in compliance with its terms and conditions and with the material requirements prescribed by any and all statutory or regulatory laws that are applicable to such International Employee Plan. Furthermore, no International Employee Plan has unfunded liabilities, that as of the Effective Time, will not be offset by insurance or fully accrued. Except as required by law, no

condition exists that would prevent the Company or Parent from terminating or amending any International Employee Plan at any time for any reason without Liability to the Company or its ERISA Affiliates (other than ordinary administration expenses or routine claims for benefits).

(o) Certain Employee Matters . **Section 2.22(o)** of the Disclosure Schedule contains a complete and accurate list of the current employees of the Company as of the date hereof and shows with respect to each such employee (i) the employee's name, position held, base salary or hourly wage rate, as applicable, including each employee's designation as either exempt or non-exempt from the overtime requirements of the Fair Labor Standards Act, and commission, profit sharing, incentive, bonus and benefits arrangements between the Company and each such employee, (ii) the date of hire, (iii) vacation eligibility for the current calendar year (including accrued vacation from prior years), (iv) leave status (including type of leave, expected return date for non-disability related leaves and expiration dates for disability leaves), (v) visa status, (vi) the name of any union, collective bargaining agreement or other similar labor agreement covering such employee, (vii) accrued sick days for the current calendar year, (viii) relevant prior notice period required in the event of termination, (ix) eligibility for Company car or travel expenses, (x) any severance or termination payment (in cash or otherwise) to which any employee is entitled, and (xi) average over-time payments per month during the preceding twelve-month period. To the Knowledge of the Company, no employee listed on **Section 2.22(o)** of the Disclosure Schedule intends to terminate his or her employment for any reason, other than in accordance with the employment arrangements provided for in this Agreement.

(p) **Section 2.22(p)** of the Disclosure Schedule contains an accurate and complete list of (i) all Persons that have or in the past have had a consulting or advisory relationship with the Company, (ii) with respect to current consultants and advisors, the start and end dates of such consulting or advisory relationships, and (iii) with respect to current consultants and advisors, the location at which such consulting or advisory services have been or are provided.

2.23 Insurance . **Section 2.23** of the Disclosure Schedule lists all insurance policies and fidelity bonds covering the assets, business, equipment, properties, operations, employees, officers and directors of the Company, including the type of coverage, the carrier, the amount of coverage, the term and the annual premiums of such policies. There is no claim by the Company pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed or that the Company has a reason to believe will be denied or disputed by the underwriters of such policies or bonds. In addition, there is no pending claim for which its total value (inclusive of defense expenses) the Company expects to exceed the policy limits. All premiums due and payable under all such policies and bonds have been paid, (or if installment payments are due, will be paid if incurred prior to the Closing Date), and the Company is otherwise in material compliance with the terms of such policies and bonds (or other policies and bonds providing substantially similar insurance coverage). Such policies and bonds (or other policies and bonds providing substantially similar coverage) have been in effect for the past three years and remain in full force and effect. The Company does not have any Knowledge of threatened termination of, or premium increase with respect to, any of such policies. The Company has never maintained, established, sponsored, participated in or contributed to any self-insurance plan.

2.24 Compliance with Laws . The Company has complied with, has not been in violation of, and has not received any notices of suspected, potential, or actual violation with respect to, any material foreign, federal, state or local Law.

2.25 Export Control Laws

. The Company has at all times during the past five years, conducted its export transactions in accordance with (i) all applicable U.S. export and reexport controls, including the United States Export Administration Act and Regulations and Foreign Assets Control

Regulations and (ii) all other applicable import/export controls in other countries in which the Company conducts business. Without limiting the foregoing:

(a) The Company has obtained all export and import licenses, license exceptions and other consents, notices, waivers, approvals, orders, authorizations, registrations, declarations and filings with any Governmental Entity required for (i) the export, import and reexport of products, services, software and technologies and (ii) releases of technologies and software to foreign nationals located in the United States and abroad (" **Export Approvals** ");

(b) The Company is in compliance with the terms of all applicable Export Approvals;

(c) There are no pending or, to the Knowledge of the Company, threatened claims against the Company with respect to such Export Approvals;

(d) To the Knowledge of the Company, there are no presently existing facts or circumstances pertaining to the Company's export transactions that would constitute a reasonable basis for any future claims with respect to such Export Approvals that would have a material adverse effect on the Company, its business or its financial condition;

(e) No Export Approvals for the transfer of export licenses to Parent or the Company are required, or such Export Approvals can be obtained expeditiously without material cost; and

(f) **Section 2.25(f)** of the Disclosure Schedule sets forth the true, complete and accurate export control classifications applicable to the Company's products, services, software and technologies.

2.26 Anti-Corruption Laws . Neither the Company nor any of its Subsidiaries, officers, directors, employees, controlled affiliates, agents, or other Person acting on their behalf has, directly or indirectly:

(a) taken any action which would cause it to be in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, United States Travel Act, United Kingdom Bribery Act of 2010, Organization of Economic Cooperation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, or any similar commercial or public anti-corruption or anti-bribery laws or legal requirements applicable to the Company or any of its Subsidiaries in any jurisdiction (collectively hereinafter " **Anti-Corruption Laws** ");

(b) used any corporate funds for unlawful contributions, gifts, travel, entertainment or other unlawful expenses relating to political activity;

(c) made, offered, attempted or authorized any unlawful payment or other thing of value to foreign or domestic government officials (including officials or employees of companies or organizations that are owned or controlled by a foreign government);

(d) made, offered, attempted or authorized any unlawful payment or other thing of value to any member or candidate of a foreign or domestic political party;

(e) made, offered, attempted or authorized any unlawful payment or other thing of value to employees or officials of any public international organizations;

(f) made, offered, attempted or authorized any bribe, rebate, payoff, influence payment, kickback or other similar unlawful payment to any person in violation of the Anti-Corruption Laws; or

(g) established or maintained any fund or asset for any such purpose that was not properly recorded in the Company's books and records.

Neither the Company nor any of its Subsidiaries, or other entities under the control of the same, have conducted an internal investigation, received a whistleblower complaint, or been informally or formally investigated, charged, or prosecuted, for conduct related to applicable Anti-Corruption Laws. The Company has established sufficient internal controls and procedures to ensure compliance with the Anti-Corruption Laws.

2.27 State Takeover Statutes. The Board of Directors of the Company has taken all action necessary to ensure that any restrictions on business combinations contained in Delaware Law or any other applicable law will not apply to the Merger and the other transactions contemplated by this Agreement. No other "fair price," "moratorium," "control share acquisition" or other similar anti-takeover statute or regulation or any anti-takeover provision in the Company's Charter Documents is, or at the Effective Time (following the effectiveness of the Certificate Amendment) will be, applicable to the Company, the shares of Company Capital Stock, the Merger or the other transactions contemplated by this Agreement.

2.28 Complete Copies of Materials. The Company has made available to Parent true and complete copies of each document (or summaries of the same if copies are not available) that has been requested in writing by Parent or its counsel, including all Contracts and other documents listed on the Disclosure Schedule.

2.29 Representations Complete. To the Knowledge of the Company, none of the representations or warranties made by the Company (as modified by the Disclosure Schedule) in this Agreement, and none of the statements made in any exhibit, schedule or certificate furnished by the Company pursuant to this Agreement contains any untrue statement of a material fact, or omits to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PARENT AND SUB

Each of Parent and Sub hereby represents and warrants to the Company on the date hereof as follows:

3.1 Organization. Each of Parent and Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Each of Parent and Sub has the requisite corporate power and authority to own, lease and operate its assets and properties and to carry on its business as it is now being conducted.

3.2 Authority and Enforceability. Each of Parent and Sub has all requisite corporate power and authority to enter into this Agreement and any Related Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each of Parent and Sub of this Agreement and any Related Agreements to which it is a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all

necessary corporate action on the part of Parent and Sub. This Agreement and any Related Agreements to which Parent and Sub are parties have been duly executed and delivered by Parent and Sub and, assuming the due authorization, execution and delivery by the other parties hereto and thereto constitute the valid and binding obligations of Parent and Sub, enforceable against each of Parent and Sub in accordance with their terms, subject to (i) laws of general application relating to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and (ii) general principles of equity.

3.3 No Conflict . The execution and delivery by Parent and Sub of this Agreement and any Related Agreement to which Parent or Sub is a party, and the consummation of the transactions contemplated hereby and thereby, will not result in any violation of or default under (with or without notice or lapse of time, or both) any provision of Parent's or Sub's certificate of incorporation or bylaws.

3.4 Cash Resources . Parent has sufficient cash resources to pay the Total Consideration pursuant to this Agreement.

ARTICLE IV

CONDUCT PRIOR TO THE CLOSING

4.1 Conduct of Business of the Company . During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, the Company shall operate the business of the Company in the ordinary course of business consistent with past practices in all material respects, except (x) as specifically disclosed in **Section 4.1** of the Disclosure Schedule, (y) with the prior written consent of Parent (the decision with respect to which will not be unreasonably withheld or delayed) or (z) as specifically contemplated by this Agreement or as requested by Parent following the date hereof, the Company shall take any action specifically requested by Parent that does not materially deviate from the operation of the Company in the ordinary course of business consistent with its past practices. Notwithstanding the foregoing, except as set forth in clauses (x), (y) and (z) above, the Company shall not from and after the date of this Agreement:

(a) make any expenditure or enter into any commitment or transaction exceeding $10,000 individually or $25,000 in the aggregate;

(b) (i) sell or license or transfer to any Person any rights to any Company Intellectual Property or Technology or enter into any agreement with respect to any Company Intellectual Property or Technology with any Person or with respect to any Intellectual Property Rights or Technology of any Person (other than non-exclusive agreements to provide Company Products or Future Products to end-users pursuant to agreements that have been entered into in the ordinary course of business consistent with past practices that do not materially differ in substance from the Standard Form Agreements), (ii) buy or license any Intellectual Property Rights or Technology or enter into any agreement with respect to the Intellectual Property Rights or Technology of any Person, (iii) enter into any agreement with respect to the development of any Intellectual Property Rights or Technology with a third party, or (iv) terminate, fail to renew, abandon, cancel, let lapse, fail to continue to prosecute or defend any Company Intellectual Property;

(c) terminate or extend, or materially amend, waive, modify, or violate the terms of, any Contract disclosed on the Disclosure Schedule (or agree to do so), or enter into any new Contract;

(d) enter into or materially amend, waive or modify the terms of any Contract pursuant to which any other party is granted marketing, distribution, development or similar rights of any type or scope with respect to any Company Products, Future Products or Technology;

(e) modify or remove any Company Privacy Policy, or publish or make available any new Company Privacy Policy;

(f) create any new Liability of any kind in excess of $20,000 other than as required to consummate the Merger;

(g) initiate or settle any litigation, other than to enforce its rights under this Agreement;

(h) declare, set aside, or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any Company Capital Stock, or split, combine or reclassify any Company Capital Stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of Company Capital Stock, or repurchase, redeem or otherwise acquire, directly or indirectly, any shares of Company Capital Stock (or options, warrants or other rights exercisable therefor) except in accordance with the Plan or the agreements governing the Company Options outstanding as of the date hereof;

(i) issue, grant, deliver or sell or authorize or propose the issuance, grant, delivery or sale of, or purchase or propose the purchase of, any shares of Company Capital Stock or any securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue or purchase any such shares or other convertible securities, other than issuances of Company Capital Stock pursuant to exercises of Company Options or Company Warrants in accordance with their terms;

(j) cause or permit any amendments to the Company Certificate of Incorporation, Company Bylaws or other organizational documents of the Company (whether by merger or otherwise);

(k) acquire or agree to acquire by merging or consolidating with, or by purchasing any assets or equity securities of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the Company's business;

(l) enter into any agreement to purchase or sell any interest in real property, grant any security interest in real property, enter into any lease, sublease, license or other occupancy agreement with respect to any real property or alter, amend, modify or terminate any of the terms of any Lease Agreements;

(m) incur or guarantee any Indebtedness or issue or sell any debt securities or guarantee any debt securities or other obligations of others or create a Lien over any of its assets;

(n) grant any loans to others or purchase debt securities of others or amend the terms of any outstanding loan agreement;

(o) grant any severance or termination pay (in cash, equity or otherwise) to any Employee, including any officer, of the Company, except payments made pursuant to the Company Employee Plans set forth in the Disclosure Schedule and provided to Parent or pursuant to standard written agreements outstanding on the date hereof and disclosed in the Disclosure Schedule;

(p) hire, offer to hire or terminate any Employees, or encourage any Employees to resign from the Company, or make any representations or issue any communications to employees that are inconsistent with this Agreement or the transactions contemplated thereby, including any representations regarding offers of employment from Parent except as otherwise required by the terms of this Agreement;

(q) adopt, amend or fail to maintain any Company Employee Plan, enter into any employment contract, pay or agree to pay any special bonus or special remuneration to any director or Employee of the Company, or increase or agree to increase the salaries, wage rates, or other compensation or benefits of its Employees (whether through the payment of, or agreement to pay, bonus amounts or otherwise) except payments made pursuant to this Agreement or standard written agreements outstanding on the date hereof and disclosed in the Disclosure Schedule;

(r) revalue any of its assets (whether tangible or intangible), including, without limitation, writing off notes or accounts receivable, settle, discount or compromise any accounts receivable, or reverse any reserves other than in the ordinary course of business and consistent with past practice;

(s) pay, discharge, waive or satisfy, in an amount in excess of $10,000 in any one case, or $25,000 in the aggregate, any claim, Liability, loan or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business of Liabilities reflected or reserved against in the Current Balance Sheet;

(t) make or change any Tax election, adopt or change any Tax accounting method, enter into any closing agreement or Tax ruling, settle or compromise any Tax claim or assessment, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment, or file any amended Tax Return;

(u) enter into any license, distribution, reseller, OEM, joint venture or joint marketing or any similar arrangement or agreement (other than non-exclusive licenses of the Company Products or Future Products to end-users pursuant to agreements that have been entered into in the ordinary course of business consistent with past practices that do not materially differ in substance from the Standard Form Agreements);

(v) modify any benefits or other compensation of employees of or other services providers to the Company;

(w) adopt or change the Company's accounting policies or procedures, including with respect to reserves for excess or obsolete inventory, doubtful accounts or other reserves, depreciation or amortization policies or rates, billing and invoicing policies, or payment or collection policies or practices; or

(x) take, commit or agree in writing or otherwise to take, any of the actions described in **Sections 4.1(a)** through **4.1(w)** , inclusive.

4.2 No Solicitation

(a) Until the earlier of (i) the Closing, or (ii) the date of termination of this Agreement pursuant to the provisions of **Section 8.1** hereof, the Company shall not, nor shall the Company permit any of its officers, directors, members, employees, stockholders, agents, representatives or affiliates (each, a " **Company Representative** ") to, directly or indirectly, take any of the following

actions with any party other than Parent and its designees: (A) solicit, initiate, participate or knowingly encourage any negotiations or discussions with respect to any offer or proposal to acquire all or any portion of the Company's business or properties, or any equity interest in the Company or shares of Company Capital Stock or any rights to acquire any shares of Company Capital Stock or other equity interests in the Company, regardless of the form of transaction (a " **Competing Transaction** "), or effect any such transaction, (B) disclose any information to any Person concerning the business or properties of the Company, or afford to any Person access to the Company's properties, books or records other than in the ordinary course of business, (C) assist or cooperate with any Person to make any proposal regarding a Competing Transaction, or (D) enter into any agreement with any Person providing for a Competing Transaction. In the event that the Company or any Company Representative shall receive, prior to the Closing or the termination of this Agreement in accordance with **Section 8.1** hereof, any offer, proposal, or request, directly or indirectly, of the type referenced in clause (A), (C) or (D) above, or any request for disclosure or access as referenced in clause (B) above, the Company shall, or shall cause such Company Representative to, immediately (x) terminate, suspend or otherwise discontinue any and all discussions or other negotiations with such Person with regard to such offers, proposals, or requests and (y) notify Parent thereof, including information as to the identity of the Person making any such offer or proposal and the specific terms of such offer or proposal, as the case may be, and such other information related thereto as Parent may reasonably request, including, but not limited to a copy thereof or a summary of the principal terms of any such inquiry, offer or proposal that is not in writing.

(b) The parties hereto agree that irreparable harm would occur in the event that the provisions of this **Section 4.2** were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed by the parties hereto that Parent shall be entitled to an immediate injunction or injunctions, without the necessity of proving the inadequacy of money damages as a remedy and without the necessity of posting any bond or other security, to prevent breaches of the provisions of this **Section 4.2** and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which Parent may be entitled at law or in equity. Without limiting the foregoing, it is understood that any violation of the restrictions set forth above by any Company Representative shall be deemed to be a breach of this Agreement by the Company.

4.3 Procedures for Requesting Parent Consent . If the Company desires to take an action which would be prohibited pursuant to **Section 4.1** hereof without the written consent of Parent, prior to taking such action the Company may request such written consent by sending an e−mail or facsimile to each of the following individuals:

Jason Corsello
Telephone: 1 (203) 779-5501
Facsimile: 1 (310) 752-0199
E-mail address: jcorsello@cornerstoneondemand.com

Adam Weiss
Telephone: 1 (310) 752-0113
Facsimile: 1 (310) 752-0145
E-mail address: aweiss@csod.com

Any of the parties set forth above may grant consent on behalf of Parent to the taking of any action that would otherwise be prohibited pursuant to **Section 4.1** by e-mail or such other notice that complies with the provisions of **Section 9.1** .

ARTICLE V

ADDITIONAL AGREEMENTS

5.1 Company Stockholder Approval

(a) As soon as possible following the execution of this Agreement (but no later than twelve (12) hours thereafter), the Company shall deliver to Parent a true, correct and complete copy of the Initial Stockholder Consent. In addition, the Company shall take all necessary actions in accordance with this Agreement to cause each Company Stockholder that executed a copy of the Initial Stockholder Consent to deliver an executed Joinder Agreement contemporaneously with the signing of this Agreement.

(b) The Company shall prepare, subject to Parent's reasonable review and approval, an information statement to be distributed to the Company Stockholders in connection with soliciting the approval of such Company Stockholders of this Agreement, the Certificate Amendment and the transactions contemplated hereby (the " **Information Statement** "), which Information Statement shall comply with the provisions set forth in this **Section 5.1** . Promptly following the execution of this Agreement, but in no event later than ten (10) Business Days after the date hereof, the Company shall submit this Agreement, the Certificate Amendment, and the transactions contemplated hereby to the Company Stockholders whose consent was not obtained as described in **Section 5.1(a)** hereof for approval and adoption by such Company Stockholders pursuant to execution of the Stockholder Written Consent. To the extent required by Delaware Law or California Law, the Company shall promptly deliver to any Company Stockholder who has not approved this Agreement and the transactions contemplated hereby a notice of the approval of the Merger and adoption of this Agreement and the Certificate Amendment by written consent of the Company Stockholders pursuant to the applicable provisions of Delaware Law and California Law, which notice shall constitute the notice to Company Stockholders required by applicable law that dissenters' and/or appraisal rights may be available to Company Stockholders in accordance with Delaware Law and California Law. In addition, as soon as practicable following the execution and delivery of this Agreement, the Company shall take all necessary actions in accordance with this Agreement to solicit a Joinder Agreement from each Company Stockholder that did not execute and deliver a Joinder Agreement contemporaneously with the Initial Stockholder Consent.

(c) As soon as reasonably possible following the execution of this Agreement, the Company shall obtain and deliver to Parent a waiver agreement, substantially in the form attached hereto as Exhibit I (a " **280G Waiver** "), from each Person whom the Company reasonably believes is, with respect to the Company or any ERISA Affiliate, a "disqualified individual" (within the meaning of Section 280G of the Code and the regulations promulgated thereunder), as determined immediately prior to the initiation of the solicitation of the requisite Company Stockholder approval described in **Section 5.1(d)** , and who might otherwise receive or have the right or entitlement to receive a parachute payment under Section 280G of the Code unless the requisite Company Stockholder approval of such parachute payments is obtained pursuant to **Section 5.1(d)** .

(d) As soon as reasonably possible following the delivery by the Company to Parent of each executed 280G Waiver described in **Section 5.1(c)** (or written notice to Parent that certain "disqualified individuals" described in **Section 5.1(c)** have elected not to deliver such 280G Waiver), the Company shall solicit the Company Stockholders to approve (in a manner reasonably satisfactory to Parent) by such number of Company Stockholders as is required by the terms of Section 280G(b)(5)(B) of the Code any payments and/or benefits that are subject to a 280G Waiver and that Parent determines may separately or in the aggregate constitute "parachute payments" (within the meaning of Section 280G of the Code and the regulations promulgated thereunder), such that such payments and benefits shall not be deemed to be "parachute payments" under Section 280G

of the Code, and prior to the Effective Time the Company shall deliver to Parent evidence reasonably satisfactory to Parent that a Company Stockholder vote was solicited in conformance with Section 280G and the regulations promulgated thereunder, and (i) the requisite Company Stockholder approval was obtained with respect to any payments and/or benefits that were subject to the Company Stockholder vote (the " **280G Approval** ") or (ii) that the 280G Approval was not obtained and as a consequence, that such "parachute payments" shall not be made or provided, pursuant to the 280G Waivers.

(e) Any materials to be submitted to the Company Stockholders in connection with the solicitation of their approval of this Agreement, the Certificate Amendment and the Merger, including the Information Statement (the " **Soliciting Materials** "), shall be subject to reasonable review and approval by Parent and shall include information regarding the Company, the terms of this Agreement, the Certificate Amendment and the Merger and the recommendation of the Board of Directors of the Company in favor of this Agreement, the Certificate Amendment and the Merger. The Company will promptly advise Parent in writing if at any time prior to the Closing the Company shall obtain Knowledge of any facts that might make it necessary or appropriate to amend or supplement the Soliciting Materials in order to make statements contained or incorporated by reference therein not misleading or to comply with applicable law. Anything to the contrary contained herein notwithstanding, the Company shall not include in the Soliciting Materials any information with respect to Parent or its affiliates or associates, the form and content of which shall not have been consented to in writing by Parent prior to such inclusion, except as required pursuant to applicable law.

5.2 Access to Information . Except as otherwise prohibited by applicable law or as would reasonably be expected to violate the attorney-client or other legal privilege of the Company (it being agreed that the parties shall use their reasonable efforts to cause such information to be provided in a manner that does not cause such violation, prohibition or loss of privilege), the Company shall afford Parent and its accountants, counsel and other representatives, reasonable access during the period from the date hereof and prior to the Closing to (a) all of the properties, books, contracts, commitments and records of the Company, including all Company Intellectual Property and Technology used by the Company (including access to design processes and methodologies and all source code), (b) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of the Company as Parent may reasonably request, and (c) all Employees of the Company as identified by Parent. The Company agrees to provide to Parent and its accountants, counsel and other representatives copies of internal financial statements (including Tax Returns and supporting documentation) promptly upon request. No information or knowledge obtained in any investigation pursuant to this **Section 5.2** or otherwise shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger in accordance with the terms and provisions hereof.

5.3 Confidentiality . Each of the parties hereto hereby agrees that the information obtained in any investigation pursuant to **Section 5.1** hereof, or pursuant to the negotiation and execution of this Agreement or the effectuation of the transactions contemplated hereby, or, if applicable, in connection with any disputes or arbitration proceedings, shall be governed by the terms of the Mutual Nondisclosure Agreement, dated as of April 23, 2014, as amended (the " **Confidential Disclosure Agreement** "), between the Company and Parent. In this regard, the Company acknowledges that the Parent Common Stock is publicly traded and that any information obtained during the course of due diligence could be considered to be material non−public information within the meaning of federal and state securities laws. Accordingly, the Company acknowledges and agrees not to engage in any discussions, correspondence or transactions in the Parent Common Stock in violation of applicable securities laws.

5.4 Public Disclosure. The Company shall not (nor will it permit, as applicable, any Company Representative to), directly or indirectly, issue any statement or communication to any third party (other than its agents that are bound by confidentiality restrictions) regarding the subject matter of this Agreement or the transactions contemplated hereby, including, if applicable, the termination of this Agreement and the reasons therefor or any disputes or arbitration proceedings, without the consent of Parent; except (a) to the extent such disclosure is required by applicable Law or order, in which case the Company or the Escrow Representative, as the case may be, shall promptly notify Parent of such requirement and cooperate with Parent to the extent reasonably practicable so as to seek to limit the information disclosed to the information it is advised by counsel is required by such applicable Law or order to be disclosed and will, to the extent reasonably practicable and at Parent's expense, seek to obtain a protective order over, or confidential treatment of such information, (b) to the extent that such information is or becomes generally known to the public without violation of this Agreement, the Confidential Disclosure Agreement or any other agreement or obligation restricting the disclosure of such information by such party, and (c) from and after the Closing, to the extent disclosure is made by a Company Stockholder that is a venture capital or private equity fund in communications to its investors as may be (i) legally or contractually required or (ii) reasonably necessary in the good faith exercise of the fiduciary duties of the general partner of such Company Stockholder, so long as such disclosure is (x) made in the ordinary course of business and consistent with past practice and (y) such investors are obligated to keep such communications confidential.

5.5 Commercially Reasonable Efforts. Subject to the terms and conditions provided in this Agreement, each of the parties hereto shall use commercially reasonable efforts to take promptly, or cause to be taken promptly, all actions, and to do promptly, or cause to be done promptly, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated hereby, to cause all conditions to the obligations of the other parties hereto to cause the Merger to occur, to obtain all necessary waivers, consents, approvals and other documents required to be delivered hereunder and to effect all necessary registrations and filings and to remove any injunctions or other impediments or delays, legal or otherwise, in order to consummate and make effective the transactions contemplated by this Agreement for the purpose of securing to the parties hereto the benefits contemplated by this Agreement; *provided* , *however* , that no party shall be required to agree (and the Company shall not agree without the prior consent of Parent) to (a) any license, sale or other disposition or holding separate (through establishment of a trust or otherwise) of any shares of its capital stock or of any of its businesses, assets or properties, its subsidiaries or affiliates, (b) the imposition of any limitation on the ability of Parent, its subsidiaries or affiliates or the Company to conduct their respective businesses or own any capital stock or assets or to acquire, hold or exercise full rights of ownership of their respective businesses and, in the case of Parent, the businesses of the Company, or (c) the imposition of any impediment on Parent, its subsidiaries or affiliates or the Company under any statute, rule, regulation, executive order, decree, order or other legal restraint governing competition, monopolies or restrictive trade practices (any such action described in (a), (b) or (c), an " **Action of Divestiture** "). Nothing herein shall require Parent or permit the Company (without the prior consent of Parent) to litigate with any Governmental Entity. Nothing in this Agreement shall require Parent or permit the Company (without the prior consent of Parent) to pay any consideration or agree to any modifications of existing Contracts or entry into new Contracts (other than the payment of customary filing and application fees) in connection with obtaining any waivers, consents, approvals from Governmental Entities or other Persons in connection with this Agreement, the Related Agreements or the transactions contemplated hereby or thereby.

5.6 Notification of Certain Matters. The Company or Parent, as the case may be, shall give prompt notice to the other parties of: (a) the occurrence of any event that is reasonably likely to cause any representation or warranty of the

Company or Parent, respectively and as the case may be, contained in this Agreement to be untrue or inaccurate at or prior to the Closing, and (b) the occurrence of any event that is reasonably likely to cause the failure of any condition in **Section 6.2(a)(iii)** ; *provided, however,* that the delivery of any notice pursuant to this **Section 5.6** shall not limit or otherwise affect any remedies available to the party receiving such notice. No disclosure by the Company or Parent pursuant to this **Section 5.6** , however, shall be deemed to amend or supplement the Disclosure Schedule or prevent or cure any misrepresentation, breach of representation or warranty or breach of covenant.

5.7 Termination of 401(k) Plan . Effective as of no later than the day immediately preceding the Closing Date, each of the Company and any ERISA Affiliate shall terminate any and all Company Employee Plans intended to include a Code Section 401(k) arrangement (each, a " **401(k) Plan** ") (unless Parent provides written notice to the Company that such 401(k) Plans shall not be terminated); provided, however, that the 401(k) Plan and its related trust shall continue to be administered in accordance with the terms thereof (subject to any amendments required by applicable law) until all 401(k) Plan assets have been distributed, except that no further contributions (other than loan repayments) shall be made to the 401(k) Plan after it has been terminated (other than contributions as may have accrued on or before or are based on compensation earned on or before the termination date). Unless Parent provides such written notice to the Company, no later than five (5) Business Days prior to the Closing Date, the Company shall provide Parent with evidence that each 401(k) Plan has been terminated (effective as of no later than the day immediately preceding the Closing Date) pursuant to resolutions of the Board of Directors of the Company, or such ERISA Affiliate, as the case may be. The form and substance of such resolutions shall be subject to review and approval of Parent. The Company also shall take such other actions in furtherance of terminating each 401(k) Plan as Parent may reasonably require. In the event that termination of a 401(k) Plan would reasonably be anticipated to trigger liquidation charges, surrender charges or other fees, then such charges and/or fees shall be included in Third-Party Expenses and shall be the responsibility of the Company, and the Company shall take such actions as are necessary to reasonably estimate the amount of such charges and/or fees and provide such estimate in writing to Parent no later than fifteen (15) calendar days prior to the Closing Date.

5.8 Treatment of Company Options and Company Warrants . Subject to the prior review and approval of Parent, the Company shall take all actions necessary to effect the provisions set forth in **Sections 1.7(c)** and **5.8** hereof under all Company Options, all Company Option agreements, all Company Warrants, and all Company Warrant agreements, including, without limitation, any necessary amendments to the Plan and any Company Options or Company Warrants, and the delivery of all required notices and obtaining of any required consents thereunder.

5.9 Consents . The Company shall use commercially reasonable efforts to obtain all necessary consents, waivers and approvals of any parties to any Contract as are required thereunder in connection with the Merger or for any such Contracts to remain in full force and effect, all of which are required to be listed in **Section 2.6** of the Disclosure Schedule, so as to preserve all rights of, and benefits to, the Company under such Contract from and after the Closing. Such consents, waivers and approvals shall be in a form reasonably acceptable to Parent. In the event that the Company is required to make any payments, including, without limitation, in connection with obtaining any consent, waiver or approval of any party to any Contract listed on **Schedule 6.2(k)** , then such payments shall the responsibility of the Company and shall be paid by the Company prior to Closing or, in the discretion of the Company, included as Company Third-Party Expenses in the Closing Statement Certificate. For the avoidance of doubt, the Company shall not make any payments in connection with obtaining a consent, waiver or approval for any Contract on **Section 2.6** of the Disclosure Schedule without the prior written consent of Parent unless such Contract is also listed on **Schedule 6.2(k)** .

5.10 Terminated Agreements. The Company shall cause each of the agreements listed on **Schedule 6.2(l)** hereto (the " **Terminated Agreements** ") to be terminated, effective as of and contingent upon the Closing, including sending all required notices, such that each such agreement shall be of no further force or effect immediately following the Closing. Upon the Closing, the Company shall have paid all amounts owed under the Terminated Agreements (as a result of the termination of the Terminated Agreements or otherwise), and the Surviving Corporation will not be subject to or incur any claim, Liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) under any Terminated Agreement following the Closing Date. In the event the Company is required to make any payments in connection with the termination of any Terminated Agreements, such payments shall be the responsibility of the Company and shall be paid by the Company prior to the Closing or, in the discretion of the Company, included as Company Third-Party Expenses in the Closing Statement Certificate.

5.11 Modified Agreements. The Company shall use commercially reasonable efforts to modify each of the agreements listed on **Schedule 6.2(m)** hereto (the " **Modified Agreements** ") in the manner set forth on **Schedule 6.2(m)** hereto effective as of and contingent upon the Closing, so that the required modifications are in effect immediately following the Closing. In the event the Company is required to make any payments in connection with the modification of any Modified Agreements, such payments shall be the responsibility of the Company and shall be paid by the Company prior to the Closing or, in the discretion of the Company, included in Company Third-Party Expenses in the Closing Statement Certificate.

5.12 Notices. The Company shall send each of the notices set forth in **Schedule 6.2(n)** hereto (the " **Notices** ") promptly following the date hereof.

5.13 Proprietary Information and Inventions Assignment Agreements. The Company shall use commercially reasonable efforts to cause each current employee of the Company, and each former employee of the Company who is listed on **Schedule 5.13** hereto, to have entered into and executed, and each person who becomes an employee of the Company after the date hereof and prior to the Closing shall be required by the Company to enter into and execute, an employee proprietary information agreement with the Company, in a form satisfactory to Parent, effective as of such employee's first date of employment or service. The Company shall use commercially reasonable efforts to cause each current consultant or contractor of the Company, and each former consultant or contractor of the Company who is listed on **Schedule 5.13** hereto, to have entered into and executed, and each Person who becomes a consultant or contractor of the Company after the date hereof and prior to the Closing shall be required by the Company to enter into and execute, a consultant proprietary information agreement with the Company, in a form satisfactory to Parent, effective as of such consultant or contractor's first date of service.

5.14 Resignation of Officers and Directors. The Company shall cause each officer and director of the Company to execute a resignation and release letter in the form attached hereto as Exhibit J (the " **Director and Officer Resignation and Release Letter** "), effective as of the Effective Time.

5.15 New Employment and Consulting Arrangements. Prior to the Closing, the Company shall use reasonable efforts to cause each Priority Service Provider to enter into either an at-will employment arrangement or, if requested by Parent, an independent contractor arrangement with Parent, pursuant to such Person's execution and delivery of (i) an offer letter (each, a " **Parent Offer Letter** ") and a proprietary information and inventions assignment agreement or (ii) an independent contractor agreement (each, a " **Parent Contractor Agreement** "), in each case on Parent's standard form.

5.16 Termination of Non-Continuing Service Providers. At or prior to the Closing, the Company shall provide notice of termination to each Non-Continuing Service Provider. The Company

shall offer each such Non-Continuing Service Provider a severance payment in an amount not less than four (4) weeks' salary for such Non-Continuing Service Provider (the " **Non-Continuing Service Provider Severance Amount** "), contingent upon such Non-Continuing Service Provider executing a valid general release of claims and separation agreement, in the form attached hereto as Exhibit K (the " **Non-Continuing Employee Release** ").

5.17 Expenses . Whether or not the Merger is consummated, all fees and expenses incurred in connection with the Merger (whether prior to or following Closing), including all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties (including any banker and advisor fees) incurred by a party (including the Indemnifying Parties) in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby, including, but not limited to, any payments made or anticipated to be made by such party as a brokerage or finders' fee, agents' commission or any similar charge, in connection with the Merger, whenever incurred (" **Third-Party Expenses** "), shall be the obligation of the respective party incurring such fees and expenses.

5.18 FIRPTA Compliance . On the Closing Date, the Company shall deliver to Parent a properly executed statement (a " **FIRPTA Compliance Certificate** ") in a form reasonably acceptable to Parent for purposes of satisfying Parent's obligations under Treasury Regulation Section 1.1445−2(c)(3).

5.19 Repayment of Indebtedness . Prior to or concurrent with the Closing, the Company shall repay and extinguish all Indebtedness, other than the Assumed Debt and any Closing Indebtedness, without any further Liability to the Company or Parent. In the case of all Indebtedness to be repaid and extinguished at the Closing (including, for the avoidance of doubt, the Assumed Debt and any Closing Indebtedness paid to the Paying Agent on the Closing Date pursuant to **Section 1.10(b)** hereof), the Company shall deliver, at least two (2) Business Days prior to the Closing Date, executed payoff letters or final invoices, as applicable, from each lender, creditor, noteholder or other counterparty to which such Indebtedness is owing (whether or not then due and payable), in each case (i) that sets forth the amount to be paid on or prior to the Closing Date, together with wire transfer instructions, (ii) evidencing that the payment of such amount would result in the full repayment, satisfaction, release, and discharge of all current and future obligations of the Company (and, in the case of hedging, swap or similar agreements, the complete unwind and settlement of such arrangements) in respect of such item (except obligations for indemnification and reimbursement that expressly survive repayment in full) and of all current and future Liens relating to such item and (iii) contemplating the delivery of UCC-3 termination statements and mortgage releases that when filed or recorded, as the case may be, will be sufficient to release any and all Liens relating to such item. The Company shall arrange for delivery of all such UCC-3 termination statements and mortgage releases, if any, at the Closing.

5.20 Spreadsheet . The Company shall deliver to Parent, not less than three (3) Business Days prior to the Closing Date, a spreadsheet (the " **Spreadsheet** ") in a form reasonably acceptable to Parent, which spreadsheet shall be certified as complete and correct by the Chief Executive Officer and Chief Financial Officer of the Company (such certification, the " **Spreadsheet Certificate** ") as of the Closing and which shall include, among other things, as of the Closing:

(a) with respect to each Company Stockholder, (i) such Person's address and email address, (ii) the aggregate number of shares of Company Series A Preferred Stock, Company Series B Preferred Stock, Company Series C Preferred Stock, and Company Series D Preferred Stock held by such Company Stockholder, (iii) the aggregate Series A Per Share Amount, Series B Per Share Amount, Series C Per Share Amount, and Series D Per Share Amount receivable by such Company Stockholder pursuant to **Section 1.7(b)** hereof, (iv) such Company Stockholder's Pro Rata Escrow Portion of the Escrow Amount expressed as a percentage and such Company Stockholder's Pro Rata Escrow Portion of

the Escrow Amount expressed as a Dollar amount, (v) such Company Stockholder's Pro Rata Executive Escrow Portion of the Executive Escrow Amount expressed as a percentage and such Company Stockholder's Pro Rata Executive Escrow Portion of the Executive Escrow Amount expressed as a Dollar amount, (vi) such Company Stockholder's Pro Rata Indemnity Portion, and (vii) the portion of the Closing Cash Consideration to be paid to such Company Stockholder at the Closing pursuant to **Section 1.7(b)** hereof, and (viii) such other information relevant thereto that Parent or the Paying Agent may reasonably request;

(b) with respect to each Executive Transaction Bonus Recipient, (i) such Person's address and email address, (ii) the amount of such Person's Executive Transaction Bonus, if any, (iii) such Person's Pro Rata Escrow Portion of the Escrow Amount expressed as a percentage and such Person's Pro Rata Escrow Portion of the Escrow Amount expressed as a Dollar amount, and (iv) such other information relevant thereto that Parent or the Paying Agent may reasonably request;

(c) with respect to each holder of Indebtedness of the Company, (i) such Person's address and email address, (ii) the principal amount of the Indebtedness owed to such Person, (iii) the initial issue date or incurrence of such Indebtedness, (iv) the interest rate applicable to such Indebtedness, (v) the interest accrued thereunder, (vi) the aggregate amount due and payable in connection with such Indebtedness at the Closing, including any change of control premiums applicable thereto, and a description of any such premiums, and (vii) such other information relevant thereto that Parent or the Paying Agent may reasonably request; and

(d) as applicable, the Spreadsheet shall also include, with respect to each holder of shares of Company Capital Stock issued on or after January 1, 2011, or any other security that would be deemed a "covered security" under Treasury Regulation § 1.6045-1(a)(15), (i) the cost basis of such shares or securities, (ii) the respective date(s) of issuance of such shares or securities, (iii) the respective certificate number(s) representing such shares or securities, (iv) the respective class or series of such shares or securities, and (iv) such other information relevant thereto that Parent or the Paying Agent may reasonably request.

5.21 State Takeover Statutes. In the event that any "fair price," "moratorium," "control share acquisition," or other anti-takeover statute or regulation or any anti-takeover provision of the Charter Documents is or becomes, or at the Effective Time (following the effectiveness of the Certificate Amendment) will be, applicable to the Company, shares of Company Capital Stock, the Merger or the other transactions contemplated by this Agreement, the Company, at the direction of the Board of Directors, shall use its best efforts to ensure that the Merger and the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms and subject to the conditions set forth in this Agreement, and otherwise to minimize the effect of such statute or regulation on this Agreement and the transactions contemplated hereby.

5.22 Indemnification of Directors and Officers of the Company

(a) Indemnification Obligations. During the period ending six (6) years after the Effective Time, the Surviving Corporation or its successor shall, and Parent shall cause the Surviving Corporation or its successor to fulfill its obligations to the present and former members of the Company Board and present and former officers of the Company (such directors and officers being herein called the " **Company Indemnitees** ") pursuant to the terms of the Company's Charter Documents and the indemnification agreements listed on **Schedule 5.22** as in effect on the date hereof. Any claims for indemnification made under this **Section 5.22** on or prior to the sixth anniversary of the Effective Time shall survive such anniversary until the final resolution thereof. Notwithstanding the foregoing, the obligations of Parent and the Surviving Corporation or its successor (i) shall be subject to any limitation

imposed by applicable Law and (ii) shall not be deemed to release any Company Indemnitee who is also an officer or director of the Company or its subsidiaries from his or her obligations pursuant to this Agreement or any Related Agreement, nor shall such Company Indemnitee have any right of contribution, indemnification or right of advancement from the Surviving Corporation or its successor or Parent with respect with any Loss claimed by any of the Indemnified Parties against such Company Indemnitee in his or her capacity as a Company Stockholder pursuant to this Agreement or any Related Agreement. Notwithstanding the foregoing, Parent shall have no obligation to maintain the existence of the Surviving Corporation for any specified period following the Effective Time; provided that Parent shall ensure that proper provision is made for the obligations of the Surviving Corporation under this **Section 5.22** are assumed in accordance with **Section 5.22** .

(b) Insurance . Prior to the Effective Time, the Company shall purchase and fully pay for an extended reporting period endorsement under the Company's existing directors' and officers' liability insurance coverage in a form acceptable to Parent that shall provide the Company Indemnitees with coverage for six (6) years following the Effective Time of not less than the existing coverage and have other terms not materially less favorable to the insured persons than the Company's directors' and officers' liability insurance coverage presently maintained by the Company (the " **D&O Tail Policy** "). Parent shall not, and shall cause the Surviving Corporation to not, take any action to eliminate such D&O Tail Policy.

(c) In the event that the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors or assigns of the Surviving Corporation or any of its respective successors or assigns, as the case may be, shall succeed to the obligations set forth in this **Section 5.22** .

(d) Notwithstanding anything in this Agreement to the contrary, the obligations under this **Section 5.22** shall not be terminated or modified in such a manner as to adversely affect any Company Indemnitee to whom this **Section 5.22** applies without the consent of such affected Company Indemnitee.

5.23 Payment of Severance Amounts . All Non-Continuing Service Provider Severance Amounts, final wages, and benefits payable to Non-Continuing Service Providers and any former Employees pursuant to Contracts in effect at any time prior to the Closing shall be the responsibility of the Company and shall be paid out prior to the Closing Date or, in the discretion of the Company, included as Company Transaction Expenses.

5.24 Interim Financials . The Company shall make commercially reasonable efforts to prepare and deliver to Parent at or prior to November 2, 2014 unaudited balance sheets as of September 30, 2013 and 2014, and the related unaudited statements of income and cash flows for the nine months ended September 30, 2013 and 2014, respectively (collectively, the " **September Interim Financials** "). The September Interim Financials shall be prepared in accordance with GAAP consistently applied throughout the periods indicated and consistent with each other, and in a manner consistent with the preparation of the Financials; *provided* that, for the sake of clarity, the September Interim Financials shall not be required to have undergone a SAS 100 review by such time.

ARTICLE VI

CONDITIONS TO THE MERGER

6.1 Conditions to Obligations of Each Party to Effect the Merger . The respective obligations of Parent, the Company and Sub to effect the Merger shall be subject to the satisfaction or written waiver, at or prior to the Closing, of the following conditions:

(a) No Order . No Governmental Entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction, order or other legal restraint or prohibition (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger illegal or otherwise prohibiting or preventing the consummation of the Merger.

(b) No Injunctions; Restraints; Illegality . No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect, nor shall any proceeding brought by a Governmental Entity seeking the foregoing be threatened or pending.

6.2 Conditions to the Obligations of Parent and Sub . The obligations of Parent and Sub to effect the Merger shall be subject to the satisfaction at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, exclusively by Parent and Sub:

(a) Representations, Warranties and Covenants . (i) The representations and warranties of the Company in **Sections 2.2** (Company Capital Structure), **2.4** (Authority and Enforceability), **2.5** (Initial Stockholder Consent) and **2.27** (State Takeover Statutes) shall have been true and correct as of the date made and as of the Closing Date as though such representations and warranties were made on and as of such date (other than the representations and warranties of the Company made as of a specified date, which shall be true and correct as of such date); (ii) the representations and warranties of the Company in this Agreement (other than those specified in clause (i), and other than the representations and warranties of the Company as of a specified date, which shall be true and correct as of such date) shall have been true and correct on the date they were made and shall be true and correct in all material respects (without giving effect to any limitation as to "materiality" set forth therein) on and as of the Closing Date as though such representations and warranties were made on and as of such date (other than the representations and warranties of the Company made as of a specified date, which shall be true and correct in all material respects as of such date); and (iii) the Company shall have performed and complied in all material respects with all covenants and obligations under this Agreement required to be performed and complied with by such parties as of or prior to the Closing.

(b) No Material Adverse Effect . There shall not have occurred and be continuing a Material Adverse Effect with respect to the Company.

(c) Unanimous Board Approval . This Agreement and the Certificate Amendment shall have been unanimously approved by the Board of Directors of the Company, which unanimous approval shall not have been altered, modified, changed or revoked.

(d) Company Stockholder Approval . Company Stockholders constituting the holders of not less than 93% of the shares of Company Capital Stock outstanding as of immediately prior to the Effective Time shall have approved this Agreement, the Certificate Amendment, the Merger and the transactions contemplated hereby.

(e) Joinder Agreements. Parent shall have received a duly executed Joinder Agreement from the Company Stockholders constituting the holders of not less than 93% of the shares of Company Capital Stock outstanding as of immediately prior to the Effective Time.

(f) 280G Stockholder Approval; 280G Waivers. With respect to any payments and/or benefits that Parent reasonably determines may constitute "parachute payments" under Section 280G of the Code with respect to any Employees, (i) Parent shall have received a 280G Waiver from each Employee receiving a payment that may constitute a "parachute payment" under Section 280G of the Code and (ii) the Company Stockholders shall have (A) approved, pursuant to the method provided for in the regulations promulgated under Section 280G of the Code, any such "parachute payments" or (B) voted upon and disapproved such parachute payments and, as a consequence, such "parachute payments" shall not be paid or provided for in any manner, and Parent and its Subsidiaries shall not have any Liabilities with respect to such "parachute payments." Each 280G Waiver shall be in effect as of immediately prior to the solicitation of the 280G Approval from the Company Stockholders.

(g) Litigation. There shall be no action, suit, claim, order, injunction or proceeding of any nature pending, or overtly threatened, against Parent or the Company, their respective properties or any of their respective officers, directors or, with respect to Parent, subsidiaries arising out of, or in any way connected with, the Merger, any Related Agreements or the other transactions contemplated by the terms of this Agreement or any Related Agreements or otherwise seeking any of the results set forth in **Section 6.1(a)** hereof.

(h) Termination of 401(k) Plans. Unless Parent has explicitly instructed otherwise pursuant to **Section 5.7** hereof, Parent shall have received from the Company evidence satisfactory to Parent that all 401(k) Plans have been terminated pursuant to resolution of the Board of Directors of the Company or the ERISA Affiliate, as the case may be, (the form and substance of which shall have been subject to review and approval of Parent), effective as of no later than the day immediately preceding the Closing Date, and Parent shall have received from the Company evidence of the taking of any and all further actions as provided in **Section 5.7** hereof.

(i) Termination of Company Options. The Company shall have taken all necessary actions to provide for the cancellation or termination of all Company Options that are outstanding as of immediately prior to the Effective Time.

(j) Exercise or Termination of Company Warrants. The Company shall have taken all necessary actions to provide for the cancellation or termination of all Company Warrants, if any, that are outstanding as of immediately prior to the Effective Time, and each such Company Warrant shall have been either (i) exercised by the holder(s) of such Company Warrants in full or (ii) to the extent not exercised in full, terminated or cancelled as of immediately prior to the Closing, either pursuant to its own terms or pursuant to an agreement with the holder(s) thereof, and the Company shall have delivered to Parent written evidence of such exercise, termination or cancellation.

(k) Third Party Consents. The Company shall have delivered to Parent all necessary consents, waivers and approvals of parties to any Contract (including Lease Agreements) set forth on **Schedule 6.2(k)** hereto.

(l) Termination of Agreements. The Company shall have terminated each of those agreements listed on **Schedule 6.2(l)** hereto effective as of and contingent upon the Closing and, from and after the Closing, each such agreement shall be of no further force or effect.

(m) Modification of Agreements. The Company shall have modified those agreements listed on **Schedule 6.2 (m)** hereto in the manner set forth on **Schedule 6.2(m)** hereto effective as of and contingent upon the Closing, so that the required modifications are in effect upon and after the Closing.

(n) Notices for Agreements. The Company shall have sent the notices set forth on **Schedule 6.2(n)** hereto.

(o) Key Employee Agreements. Each of the Key Employee Agreements entered into concurrently with the execution of this Agreement shall be in full force and effect and no Key Employee shall have terminated any such Key Employee Agreement.

(p) New Employment and Consulting Arrangements. At least 80% of the Priority Service Providers shall have entered into (i) an employment arrangement with Parent pursuant to the execution and delivery of a Parent Offer Letter and a proprietary information and inventions assignment agreement with Parent or (ii) in Parent's discretion, an independent contractor arrangement with Parent pursuant to the execution and delivery of a Parent Contractor Agreement, in each case on Parent's standard form.

(q) Non-Competition Agreements. Each of the Non-Competition Agreements entered into by the Key Stockholders concurrently with the execution of this Agreement shall be in full force and effect and no Key Stockholder shall have terminated any such Non-Competition Agreement.

(r) Proprietary Information and Inventions Assignment Agreements. The Company shall have provided evidence satisfactory to Parent that as of the Closing each current and former Employee, consultant and contractor of the Company, including each Person listed on **Schedule 5.13** hereto, has entered into and executed an employee proprietary information agreement or consultant proprietary information agreement, as applicable, each in a form satisfactory to Parent.

(s) Resignation of Officers and Directors. Parent shall have received a duly executed Director and Officer Resignation and Release Letter from each of the officers and directors of the Company, effective as of the Effective Time.

(t) Amendment to Certificate of Incorporation. The Company shall have filed immediately prior to the Closing the Certificate Amendment with the Secretary of State of the State of Delaware, and such Certificate Amendment shall be in full force and effect.

(u) Certificate of the Company. Parent shall have received a certificate from the Company, validly executed by the Chief Executive Officer of the Company for and on the Company's behalf, to the effect that, as of the Closing, the conditions set forth in **Section 6.2(a)** (to the extent relating to representations, warranties or covenants of the Company) and **Section 6.2(b)** have been satisfied.

(v) Certificate of Secretary of Company. Parent shall have received a certificate, validly executed by the Secretary of the Company, certifying as to (i) the terms and effectiveness of the Company Certificate of Incorporation, as amended by the Certificate Amendment, and Company Bylaws, (ii) the valid adoption of resolutions of the Board of Directors of the Company (whereby this Agreement, the Certificate Amendment, the Merger and the transactions contemplated hereunder were unanimously approved by the Company's board of directors), (iii) the valid adoption of resolutions of the Company Stockholders constituting the Requisite Stockholder Vote (whereby the this Agreement, the Certificate Amendment, the Merger and the transactions contemplated hereunder were approved) and (iv) the results of any vote of the Company Stockholders with respect to the approval or disapproval of any payments or

benefits that may be deemed to constitute a "parachute payment" within the meaning of 280G of the Code.

(w) Certificates of Good Standing . Parent shall have received a long-form certificate of good standing from the Secretary of State of the State of Delaware with respect to the Company, dated as of a date within 5 days of the Closing. Parent shall have received a certificate of foreign status from the Secretary of State of the State of California with respect to the Company, dated within a date within 5 days of the Closing.

(x) FIRPTA Certificate . Parent shall have received a copy of the FIRPTA Compliance Certificate, validly executed by a duly authorized officer of the Company.

(y) Repayment of Indebtedness . The Company shall have delivered to Parent documentation reasonably satisfactory to Parent evidencing the Company's compliance in full with **Section 5.19** .

(z) Spreadsheet . Parent and the Paying Agent shall have received from the Company three (3) Business Days prior to the Closing Date the Spreadsheet and the Spreadsheet Certificate pursuant to **Section 5.20** .

(aa) Closing Statement Certificate . Parent shall have received the Closing Statement Certificate from the Company not less than three (3) Business Days prior to the Closing Date pursuant to **Section 1.8(a)(i)** .

(bb) Termination of Non-Continuing Service Providers . The Company shall have terminated its employment or contractor relationship with each Non-Continuing Service Provider.

6.3 Conditions to Obligations of the Company . The obligations of the Company to effect the Merger shall be subject to the satisfaction at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, exclusively by the Company:

(a) Representations, Warranties and Covenants . (i) The representations and warranties of Parent and Sub in this Agreement (other than the representations and warranties of Parent and Sub as of a specified date, which shall be true and correct as of such date) shall have been true and correct when made and shall be true and correct in all material respects (without giving effect to any limitation as to "materiality" set forth therein) on and as of the Closing Date as though such representations and warranties were made on and as of such date and (ii) each of Parent and Sub shall have performed and complied in all material respects with all covenants and obligations under this Agreement required to be performed and complied with by such parties as of or prior to the Closing Date.

(b) Certificate of Parent . Company shall have received a certificate executed on behalf of Parent by an officer of Parent to the effect that, as of the Closing, the conditions set forth in **Section 6.3(a)** are satisfied.

ARTICLE VII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION; ESCROW

7.1 Survival of Representations and Warranties . The representations and warranties of the Company contained in this Agreement and in the Certificates shall survive for a period of eighteen (18) months following the Closing Date (the date of expiration of such eighteen (18)

month period, the " **Survival Date** "), except to the extent subject to a pending claim for indemnification set forth in an Officer's Certificate delivered prior to the termination of the Escrow Period, in which case such representation or warranty shall survive, with respect to such pending claim only, until such claim is resolved pursuant to the terms of this Agreement; *provided* , *however* , that in the event of fraud or knowing and willful breach by the Company of a representation or warranty contained in this Agreement or in the Certificates, as applicable, such representation or warranty shall not terminate; *provided further* , *however* , that (i) the representations and warranties contained in **Section 2.11** (Tax Matters) hereof shall survive until sixty (60) days after the expiration of the applicable statute of limitations (except to the extent subject to a pending claim for indemnification set forth in an Officer's Certificate delivered prior to such date, in which case such representation or warranty shall survive, with respect to such pending claim only, until such claim is resolved) and (ii) the representations and warranties contained in **Section 2.1** (Organization of the Company), **Section 2.2** (Company Capital Structure), and **Section 2.4** (Authority and Enforceability) (the representations and warranties in (i) and (ii), the " **Surviving Representations** ") shall not terminate. The representations and warranties of Parent contained in this Agreement, the Related Agreements or in any certificate or other instrument delivered pursuant to this Agreement shall terminate at the Closing. Notwithstanding any other provision of this Agreement, it is the intention of the parties hereto that the foregoing survival periods and termination dates supersede any applicable statute of limitations applicable to such representations and warranties.

7.2 Indemnification .

(a) By virtue of the Merger, subject to the provisions of this **Article VII** , from and after the Effective Time, the Company Stockholders who received consideration pursuant to **Section 1.7(b)** and the Executive Transaction Bonus Recipients (each, an " **Indemnifying Party** " and, collectively, the " **Indemnifying Parties** "), shall severally and not jointly (except as otherwise specifically set forth in this **Article VII**), and in accordance with each such Indemnifying Party's Pro Rata Escrow Portion (with respect to Losses payable from the Escrow Fund) or Pro Rata Indemnity Portion (with respect to Losses payable outside of the Escrow Fund), as applicable, indemnify and hold harmless Parent and its officers, directors, affiliates, employees and agents, including the Surviving Corporation (the " **Indemnified Parties** "), against all losses, Liabilities, Taxes, damages, costs, interest, awards, judgments, penalties and expenses, including reasonable attorneys' and consultants' fees and expenses and including any such reasonable out-of-pocket expenses incurred in connection with investigating, defending against or settling, in accordance with the terms hereof, any of the foregoing (hereinafter individually a " **Loss** " and, collectively, " **Losses** ") incurred or sustained by the Indemnified Parties, or any of them (including the Surviving Corporation) as a result of the following (the " **Indemnifiable Matters** "):

(i) any breach or inaccuracy of a representation or warranty of the Company contained in this Agreement or in the Closing Certificates;

(ii) any failure by the Company to perform or comply with any covenant or agreement applicable to the Company and contained in this Agreement;

(iii) any inaccuracy or omission or breach of a representation or warranty of the Company contained in any of the Other Certificates;

(iv) (A) any claims or threatened claims by or purportedly on behalf of any holder or former holder of any shares of Company Capital Stock or rights or purported rights to acquire Company Capital Stock or other equity interests in the Company (or the economic value thereof), including (x) appraisal or dissenters' rights proceedings, (y) claims arising under Contracts to which any

such holder or former holder in its capacity as such is a party or by which it is bound, or (z) claims alleging violations of fiduciary duty by the Company's board of directors; or (B) any cash payments made to holders of Dissenting Shares (in each case under clauses (A) and (B) above, without double counting any Dissenting Share Payments and excluding cash payments to such holders of Dissenting Shares not in excess of the consideration to which they would have been entitled for their shares of Company Capital Stock had they received merger consideration payable pursuant to **Section 1.7(b)** rather than exercising appraisal or dissenters' rights, but not excluding the reasonable out-of-pocket costs and expenses incurred in connection with any proceedings relating to the exercise of appraisal or dissenters' rights, including reasonable attorneys' and consultants' fees, including reasonable out-of-pocket costs and expenses incurred in connection with investigating, defending against or settling, in accordance with the terms hereof, any suit, claim or action in respect of Dissenting Shares);

(v) any claim or threatened claim by any actual or purported Company Stockholder relating to any alleged action or failure to act on its behalf by the Escrow Representative or asserting any right to receive any portion of the Escrow Fund on an accelerated basis rather than in accordance with the terms of this **Article VII** ;

(vi) any Liabilities relating to or arising out of any "excess parachute payments" within the meaning of Section 280G of the Code;

(vii) (A) any fraud committed by the Company or any of its Affiliates in connection with this Agreement or the Certificates or (B) any knowing and willful breach of this Agreement or the Certificates committed by the Company or any of its Affiliates;

(viii) except to the extent taken into account in determining the Total Consideration, any Unpaid Pre-Closing Taxes, whether or not required to be reflected on a balance sheet in accordance with GAAP;

(ix) any Agreed-Upon Losses; and

(x) any Excess Executive Clawback Amount (as defined in **Section 7.4(f)(ii)**).

(b) Notwithstanding **Section 7.2(a)** or anything else in this Agreement to the contrary, nothing in this Agreement shall limit the liability of any Indemnifying Party who is a Company Stockholder committing, or having actual knowledge of, any fraud or knowing and willful breach of this Agreement or the Certificates for any Losses incurred or sustained by the Indemnified Parties, or any of them (including the Company), as a result of such fraud or knowing and willful breach, provided that the provisions of **Article VII** shall not apply with respect to (and shall not be a basis of recourse for) any such Losses.

(c) For the purposes of this **Article VII** only, solely when determining the amount of Losses suffered by an Indemnified Party as a result of any breach, inaccuracy or failure (but not for purposes of determining whether such breach, inaccuracy or failure has occurred), any representation, warranty, covenant or agreement given or made by the Company or any Indemnifying Party that is qualified or limited in scope as to materiality or Material Adverse Effect (including the definition of Material Contracts), such representation, warranty, covenant or agreement shall be deemed to be made or given without such qualification or limitation.

(d) No Indemnifying Party (or any affiliate thereof) shall have any right of contribution, indemnification or right of advancement from the Company, the Surviving Corporation or Parent with respect to any Loss claimed by an Indemnified Party against such Indemnifying Party.

(e) This **Article VII** shall constitute the exclusive remedy after the Effective Time for recovery of Losses by the Indemnified Parties pursuant to or in connection with this Agreement or any of the transactions contemplated hereby for any and all Losses, claims and causes of action relating to any of the Indemnifiable Matters or any other matter related to this Agreement; *provided* , *however* , that (i) this **Section 7.2(e)** shall not be deemed to constitute a waiver by any party of any right to specific performance, injunctive relief or other equitable remedies; (ii) nothing in this Agreement shall limit the liability of any Indemnifying Party who is a Company Stockholder (and this **Article VII** shall not be the sole and exclusive remedy in respect of such Indemnifying Party) in respect of any Losses arising in connection with the matters described in **Section 7.2(b)** hereof; and (iii) nothing in this Agreement shall limit the liability of any Indemnifying Party under any Related Agreement.

7.3 Maximum Payments; Remedy .

(a) No claim for indemnification may be made under **Section7.2(a)(i)** or **Section 7.2(a)(ii)** (other than recovery under **Section 7.2(a)(i)** or **Section 7.2(a)(ii)** for Losses resulting from any breach or inaccuracy of the Surviving Representations, or any fraud or knowing and willful breach with respect to this Agreement or the Certificates, whether or not pursuant to **Section 7.2(a)(vii)** and/or **Section 7.2(b)**), unless and until the aggregate amount of Losses of the Indemnified Parties that may be claimed thereunder (together with any Losses that may be claimed under any other subsection of **Section 7.2(a)**) exceeds $285,000 (the " **Threshold** "), and once such Threshold has been reached, the Indemnifying Parties shall be liable to the Indemnified Parties for the full amount of all Losses, including those that comprised any portion of the Threshold.

(b) Except as otherwise set forth in this **Section 7.3(b)** , the maximum amount that the Indemnified Parties may recover from each Indemnifying Party under **Section 7.2(a)(i)** and **Section 7.2(a)(x)** shall be limited to an amount equal to such Indemnifying Party's Pro Rata Escrow Portion of one hundred percent (100%) of the Escrow Amount; *provided, however,* that (i) for breaches of Surviving Representations or any fraud or knowing and willful breach with respect to this Agreement or the Certificates pursuant to **Section 7.2(a)(vii)** , the maximum amount that the Indemnified Parties may recover from each Indemnifying Party shall be limited to an amount equal to the sum of (A) such Indemnifying Party's Pro Rata Escrow Portion of one hundred percent (100%) of the Escrow Amount and (B) one hundred percent (100%) of the Closing Cash Consideration actually received by such Indemnifying Party, and (ii) for breaches of the representations and warranties contained in **Section 2.14** (Intellectual Property) hereof, the maximum amount that the Indemnified Parties may recover from each Indemnifying Party shall be limited to the sum of (A) such Indemnifying Party's Pro Rata Escrow Portion of one hundred percent (100%) of the Escrow Amount and (B) an amount of the Closing Cash Consideration actually received by such Indemnifying Party equal to five percent (5%) of such Indemnifying Party's Pro Rata Indemnity Portion of the Total Consideration.

(c) Except as otherwise set forth in this **Section 7.3(c)** , the maximum amount that the Indemnified Parties may recover from each Indemnifying Party under **Sections 7.2(a)(ii)** through **Section 7.2(a)(ix)** is an amount equal to the sum of (A) such Indemnifying Party's Pro Rata Escrow Portion of one hundred percent (100%) of the Escrow Amount and (B) one hundred percent (100%) of the Closing Cash Consideration actually received by such Indemnifying Party. Notwithstanding the foregoing, (A) nothing in this Agreement shall limit the liability of any Indemnifying Party who is a Company Stockholder (and this **Article VII** shall not be the sole and exclusive remedy in respect of such Indemnifying Party) in respect of any Losses arising in connection with the matters described in

Section 7.2(b) hereof; and (B) nothing in this Agreement shall limit the liability of any Indemnifying Party under any Related Agreement.

(d) Notwithstanding anything to the contrary set forth in this Agreement, in no event shall any Indemnifying Party who is an Executive Transaction Bonus Recipient be liable under this Agreement for amounts in excess of such Indemnifying Party's Pro Rata Escrow Portion of one hundred percent (100%) of the Escrow Amount.

(e) Nothing in this **Article VII** shall limit the Liability of any party hereto for any knowing and willful breach of any representation or warranty contained in this Agreement or any Related Agreement if the Merger does not close.

(f) Notwithstanding anything to the contrary set forth in this Agreement, the parties hereto agree and acknowledge that any Indemnified Party may bring a claim for indemnification for any Loss under this **Article VII** notwithstanding the fact that such Indemnified Party had Knowledge of the breach, event or circumstance giving rise to such Loss prior to the Closing or waived any condition to the Closing related thereto.

(g) Notwithstanding anything to the contrary set forth in this Agreement, all claims for indemnification by an Indemnified Party for Losses pursuant to this **Article VII** shall be satisfied (i) first, from the Escrow Fund and (ii) second, to the extent permitted under, and subject to the limitations of, this **Section 7.3** , against the Indemnifying Parties who are Company Stockholders directly, but only to the extent that such Losses cannot be recovered from the Escrow Fund.

(h) No Indemnified Party shall be entitled to indemnification under **Article VII** for punitive or exemplary damages unless such damages are payable in respect of a Third Party Claim for which such Indemnified Party is entitled to indemnification under this **Article VII** .

(i) Losses shall be calculated net of actual recoveries received by or on behalf of Parent or Surviving Corporation under insurance policies (net of any actual costs of recovery or collection, deductibles, retroactive premium adjustments, reimbursement obligations or other costs directly related to the insurance claim and deductibles) or any rights of indemnification or contribution; provided, however, that neither Parent nor the Surviving Corporation shall have any obligation to take any action to obtain such payments (except as contemplated in **Section 5.22(b)**).

(j) Any indemnification hereunder for Losses with respect to Taxes shall not include any Losses with respect to Taxes that arise as a result of the continuation of conduct related to Taxes after the Closing.

For the avoidance of doubt, (i) if and solely to the extent the amount of any Loss is recovered by an Indemnified Party through the actual payment of a Payable Claim (as defined below) to such Indemnified Party, the same amount of such Loss may not be recovered again by such Indemnified Party by reason of such Loss being subject to indemnification under more than one provision of this Agreement and (ii) if and solely to the extent that any Loss in connection with an Indemnifiable Matter was specifically taken into account in connection with calculations of the Adjusted Net Equity Amount, Company Third-Party Expenses, Closing Indebtedness, or the Unpaid Pre-Closing Taxes, the same amount of such Loss may not be recovered under **Article VII** , but, in the case of the immediately preceding clauses (i) and (ii), the amount, if any, of Loss that exceeds the amount already recovered under clause (i) or already taken into account under clause (ii) shall be recoverable on and subject to the terms and conditions of this **Article VII** .

7.4 Claims for Indemnification; Resolution of Conflicts.

(a) Making a Claim for Indemnification; Officer's Certificate. Parent (on behalf of itself and/or any other Indemnified Parties) may seek recovery of Losses pursuant to this **Article VII** by delivering to the Escrow Representative (and, in the case of recovery sought from fewer than all of the Indemnifying Parties, delivering to the applicable Indemnifying Parties) an Officer's Certificate in respect of such claim (and, in the case of a claim against the Escrow Fund, with a copy delivered simultaneously to the Escrow Agent). The date of such delivery of an Officer's Certificate is referred to herein as the " **Claim Date** " of such Officer's Certificate (and the claims for indemnification contained therein). For purposes hereof, " **Officer's Certificate** " shall mean a certificate signed by any officer of Parent: (i) stating that an Indemnified Party has paid, sustained or incurred or it is reasonably likely that it will have to pay, sustain or incur Losses and including, to the extent reasonably practicable, a non-binding, preliminary estimate of the amounts of such Losses and (ii) specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid, sustained or incurred, or the basis for such anticipated Liability, and the nature of the Indemnifiable Matter to which such item is related; *provided, however,* that the Officer's Certificate need only specify such information to the knowledge of such officer or such Indemnified Party as of the Claim Date, shall not limit any of the rights or remedies of any Indemnified Party, and may be updated and amended from time to time by the Indemnified Party by delivering an updated or amended Officer's Certificate to the Escrow Representative or applicable Indemnifying Party(ies), as the case may be. Following the delivery of an Officer's Certificate, the Escrow Representative and its representatives and agents shall be given all such access (including electronic access, to the extent available) as they may reasonably require to the books and records of the Surviving Corporation and access to such personnel or representatives of the Surviving Corporation and Parent, including but not limited to the individuals responsible for the matters that are the subject of the Officer's Certificate, as they may reasonably require for the purposes of investigating or resolving any disputes or responding to any matters or inquiries raised in the Officer's Certificate.

(b) Objecting to a Claim for Indemnification.

(i) The Escrow Representative (or, in the case of a claim against fewer than all of the Indemnifying Parties, the applicable Indemnifying Parties) may object to a claim for indemnification set forth in an Officer's Certificate by delivering to Parent a written statement of objection to the claim made in the Officer's Certificate (an " **Objection Notice** "); *provided, however,* that, to be effective, such Objection Notice must (A) be delivered to the Indemnified Party prior to 5:00 p.m. (California time) on the 30th day following the Claim Date of the applicable Officer's Certificate (such deadline, the " **Objection Deadline** " for such Officer's Certificate and the claims for indemnification contained therein) and (B) set forth in reasonable detail the nature of the objections to the claims in respect of which the objection is made. Notwithstanding the foregoing, the Escrow Representative and each Indemnifying Party hereby waive the right to object to any claims in respect of any Agreed−Upon Loss.

(ii) To the extent the Escrow Representative (or the applicable Indemnifying Parties, in the event that indemnification is being sought hereunder from fewer than all of the Indemnifying Parties) does not object in writing (as provided in **Section 7.4(b)(i)**) to the claims contained in an Officer's Certificate prior to the Objection Deadline for such Officer's Certificate, such failure to so object shall be an irrevocable acknowledgment by the Escrow Representative (or the applicable Indemnifying Parties, as the case may be) that the Indemnified Party is entitled to the full amount of the claims for Losses set forth in such Officer's Certificate (and such entitlement shall be conclusively and irrefutably established) (any such claim, an " **Unobjected Claim** "). Within 30 days of a claim becoming an Unobjected Claim, the Indemnifying Parties shall make the applicable payment to such Indemnified Party, subject to **Sections 7.3, 7.4(e)** and **7.5** .

(c) Resolution of Conflicts; Arbitration .

(i) In case the Escrow Representative (or the applicable Indemnifying Parties in the case of a claim for indemnification sought from fewer than all the Indemnifying Parties) timely delivers an Objection Notice in accordance with **Section 7.4(b)(i)** hereof (other than in connection with Agreed−Upon Losses as defined in **Section 7.4(c)(v)** hereof), the Escrow Representative (or such objecting Indemnifying Party) and Parent shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. Either party may, but shall not be obligated to, initiate non−binding mediation of the dispute with the assistance of a neutral arbitrator belonging to and under the rules of the CPR Institute for Dispute Resolution. The party requesting the mediation shall arrange for mediation services, subject to the approval of the other party, which shall not be unreasonably withheld. Mediation shall take place in Los Angeles County, California during reasonable business hours and upon reasonable advance notice. Mediation may be scheduled to begin at any time, but with at least ten (10) Business Days' written notice to all parties. If one party initiates mediation, the parties (i) shall participate in the mediation in good faith and shall devote reasonable time and energy to the mediation so as to promptly resolve the dispute or conclude that they cannot resolve the dispute and (ii) shall not pursue other remedies while such mediation is proceeding. If the Escrow Representative (or the objecting Indemnifying Parties) and Parent reach an agreement, a memorandum setting forth such agreement shall be prepared and signed by all applicable parties (any claims covered by such an agreement, " **Settled Claims** "). Any amounts required to be paid as a result of a Settled Claim shall be paid by the Indemnifying Parties to the Indemnified Parties pursuant to the Settled Claim within 30 days of the applicable claim becoming a Settled Claim, subject to **Sections 7.3, 7.4(e)** and **7.5.**

(ii) If no such agreement can be reached after good faith negotiation (and, if applicable, mediation) prior to 45 days after delivery of an Objection Notice, either Parent or the Escrow Representative (or the objecting Indemnifying Party) may demand arbitration of the matter unless the amount of the Loss that is at issue is the subject of a pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration, and in either such event the matter shall be settled by arbitration conducted pursuant to **Section 9.9** .

(iii) Except as set forth in **Section 7.4(c)(v)** hereof, arbitration under **Section 9.9** shall apply to any dispute among the Indemnifying Parties and the Indemnified Parties under this **Article VII** hereof, whether relating to claims upon the Escrow Fund or to the other indemnification obligations set forth in this **Article VII** .

(iv) The decision of the arbitrator or a majority of the three arbitrators, as the case may be, as to the validity and amount of any claim in such Officer's Certificate shall be final, binding, and conclusive upon the parties to this Agreement and the Indemnifying Parties. Such decision shall be written and shall be supported by written findings of fact and conclusions which shall set forth the award, judgment, decree or order awarded by the arbitrator(s). Claims determined by arbitration as provided in this **Section 7.4(c)(iv)** are referred to as " **Resolved Claims** ." Within 30 days of a decision of the arbitrator(s) requiring payment by an Indemnifying Party to an Indemnified Party, such Indemnifying Party shall make the payment to such Indemnified Party, subject to **Sections 7.3(a)** , **7.4(e)** and **7.5** .

(v) Arbitration under **Section 9.9** shall not apply to claims made in respect of (A) any Agent Interpleader Expenses or Agent Indemnification Expenses pursuant to clauses **(vi)** and **(vii)** of **Section 7.5(d)** hereof, (B) the matters set forth on **Schedule 7.4(c)(v)** hereto, and (C) any Dissenting Share Payments (each of (A), (B), and (C), an " **Agreed−Upon Loss** "). Claims against the Escrow Fund made in respect of any Agreed−Upon Loss shall be resolved in the manner described in **Section 7.4(b)(ii)** hereof and shall be considered an Unobjected Claim thereunder.

(d) Payable and Unresolved Claims . A " **Payable Claim** " shall mean a claim for indemnification of Losses under this **Article VII** , to the extent that such claim has not yet been satisfied by cash payment by the applicable Indemnifying Parties directly to the Indemnified Party or by release to the Indemnified Party of funds from the Escrow Fund, that is (i) a Resolved Claim, (ii) a Settled Claim, or (iii) an Unobjected Claim. An " **Unresolved Claim** " shall mean any claim for indemnification of Losses under this **Article VII** specified in any Officer's Certificate delivered pursuant to **Section 7.4(a)** , to the extent that such claim is not a Payable Claim and has not been satisfied by cash payment by the applicable Indemnifying Parties directly to the Indemnified Party or release to the Indemnified Party of funds from the Escrow Fund.

(e) Escrow Amount .

(i) Subject to **Sections 7.4(a)** , **7.4(b)** and **7.4(c)** above, by virtue of this Agreement and as partial security for the indemnity obligations provided for in **Section 7.2** hereof, the Indemnified Parties shall, in the manner provided in **Section 7.3(g)** , this **Section 7.4(e)** and **Section 7.5** , recover the amount of any Losses with respect to which the Indemnified Parties are entitled to indemnification hereunder by the release of funds from the Escrow Fund.

(ii) On the date any claim becomes a Payable Claim for which an Indemnified Party is obligated or has elected to seek recovery from the Escrow Fund, each Indemnifying Party's Pro Rata Escrow Portion of the Escrow Amount shall be irrevocably and immediately reduced by the amount of such claim, and payment of such amount from the Escrow Fund shall be made to the Indemnified Parties in accordance with **Section 7.5(b)(i)** ; *provided, however,* that, if and to the extent a Payable Claim is not payable by all the Indemnifying Parties based on their Pro Rata Escrow Portion, each Indemnifying Party's Pro Rata Escrow Portion of the Escrow Amount shall be reduced by the amount of the Payable Claim payable by such Indemnifying Party. The dollar amount of the aggregate reductions of the Escrow Amount shall reduce the Payable Claims by the exact same dollar amount. If, as a result of the preceding proviso in this **Section 7.4(e)(ii)** , the Pro Rata Escrow Portion of the Escrow Amount attributable to one or more Indemnifying Parties is reduced to zero before the Pro Rata Escrow Portion of the Escrow Amount of one or more other Indemnifying Parties is reduced to zero, then the Indemnified Parties shall, to the extent permitted by this **Article VII** , recover Payable Claims directly from those Indemnifying Parties whose Pro Rata Escrow Portion of the Escrow Amount has been fully depleted. If the Escrow Amount attributable to all the Indemnifying Parties is reduced to zero, then the Indemnified Parties shall, to the extent permitted by this **Article VII** , recover all Payable Claims directly from the Indemnifying Parties by whom such Payable Claims are payable.

(iii) On the date that is thirty (30) days after the Survival Date (the period between the Closing Date and such date, the " **Escrow Period** "), if and to the extent any Indemnifying Party's Pro Rata Escrow Portion of the remaining Escrow Amount, after taking into account all reductions and adjustments pursuant to **Section 7.4(e)(ii)** , exceeds the amount, as determined by Parent reasonably and in good faith, then necessary to serve as security for any Unresolved Claims, then such Indemnifying Party's Pro Rata Escrow Portion of the remaining Escrow Amount shall be reduced by the amount of such excess and a payment shall be paid from the Escrow Fund in accordance with **Section 7.5(b)(ii)** to each such Indemnifying Party so that each such Indemnifying Party receives such excess amount attributable to it, him or her.

(iv) From and after the Escrow Period termination date until each Indemnifying Party's entire Pro Rata Escrow Portion of the Escrow Amount has been fully depleted pursuant to **Section 7.4(e)(ii)** , **Section 7.4(e)(iii)** and the last sentence of this **Section 7.4(e)(iv)** , an Indemnified Party shall promptly deliver to the Escrow Representative a notice, as each Unresolved Claim (whether or not such Unresolved Claim existed on the Survival Date) becomes resolved as either a

Payable Claim or a claim that is not a Payable Claim, of such resolution and either (A) if and to the extent the Unresolved Claim has been resolved as a Payable Claim, the Indemnified Party shall specify the amount by which each Indemnifying Party's Pro Rata Escrow Portion of the Escrow Amount has been reduced further in accordance with and subject to **Section 7.4(e)(ii)** as a result of such Unresolved Claim becoming a Payable Claim or (B) if and to the extent the Unresolved Claim has been resolved as a claim that is not entirely a Payable Claim, specify the positive amount, if any, at such time by which the Pro Rata Escrow Portion of the remaining Escrow Amount (after taking into account all reductions and adjustments pursuant to **Section 7.4(e)(ii)** and all payments pursuant to **Section 7.4(e)(iii)** and the last sentence of this **Section 7.4(e)(iv)**), attributable to each Indemnifying Party whose Pro Rata Escrow Portion of the remaining Escrow Amount would have been reduced if such Unresolved Claim had been entirely a Payable Claim, exceeds the aggregate amount, as determined by Parent reasonably and in good faith, then necessary to serve as security for the remaining Unresolved Claims (including Unresolved Claims that did not exist on the Survival Date) that, if successful, would be payable by such Indemnifying Party. The Pro Rata Escrow Portion of the Escrow Amount attributable to each such Indemnifying Party referenced in the preceding clause (B) shall be reduced by such positive excess amount, if any, specified in accordance with the preceding clause (B) that is attributable to such Indemnifying Party and a payment shall be paid from the Escrow Fund in accordance with **Section 7.5(b)(ii)** to each such Indemnifying Party referenced in the preceding clause (B) so that each such Indemnifying Party receives such positive excess amount attributable to it, him or her.

(v) Any funds to be distributed pursuant to **Sections 7.4(e)(iii)** and **7.4(e)(iv)** (A) shall be rounded to the nearest one hundredth (0.01) (with amounts 0.005 and above rounded up); provided, that if the sum of the final amounts payable to the Indemnifying Parties, rounded as described in this clause (A), does not equal the remaining amount in the Escrow Fund, then the appropriate amount will be added or subtracted from the Indemnifying Party with the greatest Pro Rata Escrow Portion such that the sum of such final amounts does equal the remaining amount in the Escrow Fund and (B) if subject to applicable tax withholding, shall be returned to Parent before distribution, and Parent will then deduct and pay over to the appropriate Governmental Entity the appropriate tax withholding amounts and distribute net funds to the applicable Indemnifying Party.

(f) Executive Escrow Amount .

(i) If, at any time prior to the one (1) year anniversary of the Closing Date, the Named Executive has voluntarily terminated his employment with Parent for any reason or Parent has terminated the Named Executive's employment for Cause (as defined in the Named Executive's Key Employee Agreement) (collectively, a " **Executive Termination Event** ," which, for purposes of clarity, shall not include the death or disability of the Named Executive), then Parent shall be entitled to deduct from the Executive Escrow Fund an amount equal to the Executive Clawback Amount, calculated in accordance with **Section 7.4(f)(ii)** as of the date of the Executive Termination Event. For the avoidance of doubt, in no event shall the Executive Escrow Fund be available for any purpose, including without limitation, any indemnity claims pursuant to **Section 7.2(a)** , other than deduction by Parent pursuant to the terms of this **Section 7.4(f)** upon the occurrence of an Executive Termination Event.

(ii) The Executive Clawback Amount shall be calculated as of the date of the Executive Termination Event and shall be an amount of cash equal to the result of (x) $4,800,000 minus (y) the product of (A) $400,000 and (B) the number of calendar months that have elapsed after the Closing Date (measured on the same date of each month as the Closing Date). If, as of the date of the Executive Termination Event, the amount then remaining in the Executive Escrow Fund is less than the Executive Clawback Amount, then the " **Excess Executive Clawback Amount** " shall be an amount equal to (x) the Executive Clawback Amount minus (y) the then remaining amount of the Executive Escrow Fund, which amount shall be recoverable by Parent pursuant to **Section 7.2(a)(x)** .

(iii) For as long as any amount of the Executive Escrow Fund remains, each month after the Closing Date, on the same date of each month as the Closing Date occurred, the Executive Escrow Fund shall be reduced by $400,000 (or if the amount remaining in the Executive Escrow Fund is less than $400,000, by such remaining amount) (a " **Executive Escrow Release Amount** ") and a payment shall be made by the Escrow Agent from the Executive Escrow Fund to each Indemnifying Party so that each such Indemnifying Party receives his, her or its Pro Rata Executive Escrow Portion of such Executive Escrow Release Amount. Parent and the Escrow Representative shall promptly deliver joint written instructions to the Escrow Agent directing the Escrow Agent to release to such Indemnifying Parties such amount from the Executive Escrow Fund. For purposes of clarity, the Executive Escrow Fund shall be deemed to be reduced on the same date of each month as the Closing Date occurred, regardless of the date on which the Escrow Agent disburses funds to the Indemnifying Parties.

(iv) Any funds to be distributed pursuant to **Section 7.4(f)(iii)** (A) shall be rounded to the nearest one hundredth (0.01) (with amounts 0.005 and above rounded up); provided, that if the sum of the final amounts payable to the Indemnifying Parties, rounded as described in this clause (A), does not equal the remaining amount in the Executive Escrow Fund, then the appropriate amount will be added or subtracted from the Indemnifying Party with the greatest Pro Rata Executive Escrow Portion such that the sum of such final amounts does equal the remaining amount in the Executive Escrow Fund and (B) if subject to applicable tax withholding, shall be returned to Parent before distribution, and Parent will then deduct and pay over to the appropriate Governmental Entity the appropriate tax withholding amounts and distribute net funds to the applicable Indemnifying Party.

7.5 Escrow Arrangements .

(a) Escrow Fund . By virtue of this Agreement and as partial security for the indemnity obligations provided for in **Section 7.2** hereof, at the Closing, Parent will deposit with the Escrow Agent the Escrow Amount and Executive Escrow Amount without any act of the Indemnifying Parties in accordance with **Section 1.10(b)** , such deposit of the Escrow Amount and Executive Escrow Amount to constitute an escrow fund to be governed by the terms set forth herein. The Escrow Amount (plus any interest paid on such Escrow Amount in accordance with **Section 7.5(c)(ii)** hereof) (collectively, the " **Escrow Fund** ") shall be available to compensate the Indemnified Parties for any claims by such parties for any Losses suffered or incurred by them and for which they are entitled to recovery under this **Article VII** . The Executive Escrow Amount (plus any interest paid on such Executive Escrow Amount in accordance with **Section 7.5(c)(ii)** hereof) (collectively, the " **Executive Escrow Fund** ") shall be available to compensate the Indemnified Parties on the terms and conditions provided under this **Article VII** . The Escrow Agent may execute this Agreement following the date hereof and prior to the Closing, and such later execution, if so executed after the date hereof, shall not affect the binding nature of this Agreement as of the date hereof between the other signatories hereto.

(b) Satisfaction of Claims .

(i) If the Escrow Amount attributable to any Indemnifying Party is to be reduced pursuant to **Section 7.4(e)(ii)** , Parent and the Escrow Representative shall promptly deliver joint written instructions to the Escrow Agent directing the Escrow Agent to release to the applicable Indemnified Party an amount from the Escrow Fund equal to the amount of each such reduction of the Escrow Amount, plus a pro rata portion (based on the amount of such reduction of the Escrow Amount relative to the rest of the aggregate Escrow Amount) of all amounts in the Escrow Fund that exceed the aggregate Escrow Amount as of immediately before such release.

(ii) If the Escrow Amount attributable to any Indemnifying Party is to be reduced pursuant to **Section 7.4(e)(iii)** or the last sentence of **Section 7.4(e)(iv)** , Parent and the Escrow

Representative shall promptly deliver joint written instructions to the Escrow Agent directing the Escrow Agent to release to such Indemnifying Party an amount from the Escrow Fund equal to the amount of such reduction of the Escrow Amount, plus a pro rata portion (based on the amount of such reduction of the Escrow Amount relative to the rest of the aggregate Escrow Amount) of all amounts in the Escrow Fund that exceed the aggregate Escrow Amount as of immediately before such release (so that each such Indemnifying Party receives such amount attributable to it, him or her).

(c) Protection of Escrow Fund .

(i) The Escrow Amount and Executive Escrow Amount shall be invested in the Escrow Agent's U.S. Money Market Deposit Account, and any interest paid on such Escrow Amount or Executive Escrow Amount shall be added to the Escrow Fund or Executive Escrow Fund, as applicable, and become a part thereof. The Escrow Agent shall hold and safeguard the Escrow Fund during the Escrow Period and the Executive Escrow Fund during the period provided for herein, shall treat such fund as a trust fund in accordance with the terms of this Agreement and shall hold and dispose of the Escrow Fund and Executive Escrow Fund only in accordance with the terms of this **Article VII** . The interests of the Indemnifying Parties in the Escrow Fund and Executive Escrow Fund shall not be transferable without the prior written consent of Parent.

(ii) The parties hereto agree that Parent is the owner of any cash in the Escrow Fund and Executive Escrow Fund, and that all interest on or other taxable income, if any, earned from the investment of such cash pursuant to this Agreement shall be treated for tax purposes as earned by Parent. The Escrow Agent is hereby instructed to distribute to Parent, within thirty days after the end of each calendar quarter, 20% of any such interest or other income reported as earned.

(d) Escrow Agent's Duties .

(i) The Escrow Agent shall be obligated only for the performance of such duties as are specifically set forth herein, and as set forth in any additional written escrow instructions which the Escrow Agent may receive after the date of this Agreement which are signed by an officer of Parent and the Escrow Representative, and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent shall not be liable for any act done or omitted hereunder as Escrow Agent while acting in good faith and in the exercise of reasonable judgment, and any act done or omitted pursuant to the advice of legal counsel shall be conclusive evidence of such good faith.

(ii) The Escrow Agent is hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other Person, excepting only orders or process of courts of law, and is hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case the Escrow Agent obeys or complies with any such order, judgment or decree of any court, the Escrow Agent shall not be liable to any of the parties hereto or to any other Person by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

(iii) The Escrow Agent shall not be liable in any respect on account of the identity, authority or rights of the parties executing or delivering or purporting to execute or deliver this Agreement or any documents or papers deposited or called for hereunder.

(iv) The Escrow Agent shall not be liable for the expiration of any rights under any statute of limitations with respect to this Agreement or any documents deposited with the Escrow Agent.

(v) In performing any duties under this Agreement, the Escrow Agent shall not be liable to any party for damages, losses or expenses, except for gross negligence, bad faith or willful misconduct on the part of the Escrow Agent. Subject to the foregoing sentence, the Escrow Agent shall not incur any such Liability

for (A) any act or failure to act made or omitted in good faith, or (B) any action taken or omitted in reliance upon any instrument, including any written statement of affidavit provided for in this Agreement that the Escrow Agent shall in good faith believe to be genuine, nor will the Escrow Agent be liable or responsible for forgeries, fraud, impersonations, or determining the scope of any representative authority. In addition, the Escrow Agent may consult with legal counsel in connection with performing the Escrow Agent's duties under this Agreement and shall be fully protected in any act taken, suffered, or permitted by him/her in good faith in accordance with the advice of counsel. The Escrow Agent is not responsible for determining and verifying the authority of any Person acting or purporting to act on behalf of any party to this Agreement.

(vi) If any controversy arises between the parties to this Agreement, or with any other party, concerning the subject matter of this Agreement, its terms or conditions, the Escrow Agent will not be required to determine the controversy or to take any action regarding it. The Escrow Agent may hold all documents and the Escrow Amount and may wait for settlement of any such controversy by final appropriate legal proceedings or other means as, in the Escrow Agent's discretion, may be required, despite what may be set forth elsewhere in this Agreement. In such event, the Escrow Agent will not be liable for damages. Furthermore, the Escrow Agent may at its option, file an action of interpleader requiring the parties to answer and litigate any claims and rights among themselves. The Escrow Agent is authorized to deposit with the clerk of the court all documents and the Escrow Amounts held in escrow, except all costs, expenses, charges and reasonable attorney fees incurred by the Escrow Agent due to the interpleader action (the " **Agent Interpleader Expenses** ") and which the parties agree to pay as follows: 50% to be paid to Parent and 50% to be paid by the Indemnifying Parties on the basis of the Indemnifying Parties' respective Pro Rata Consideration Portions; *provided, however* , that in the event any Indemnifying Party fails to timely pay his, her or its Pro Rata Consideration Portion of the Agent Interpleader Expenses, the parties agree that Parent may at its option pay such Indemnifying Party's Pro Rata Consideration Portion of the Agent Interpleader Expenses and recover an equal amount (which shall be deemed an Agreed−Upon Loss) from such Indemnifying Party's Pro Rata Escrow Portion of the Escrow Fund. Upon initiating such action, the Escrow Agent shall be fully released and discharged of and from all obligations and liability imposed by the terms of this Agreement.

(vii) The parties and their respective successors and assigns agree jointly and severally to indemnify and hold Escrow Agent harmless against any and all losses, damages, liabilities and expenses, including reasonable out-of-pocket costs of investigation, counsel fees, including disbursements that may be imposed on Escrow Agent or incurred by Escrow Agent in connection with the performance of its duties under this Agreement, including but not limited to any litigation arising from this Agreement or involving its subject matter, other than those arising out of the negligence, bad faith or willful misconduct of the Escrow Agent (the " **Agent Indemnification Expenses** ") as follows: 50% to be paid by Parent and 50% to be paid by the Indemnifying Parties on the basis of the Indemnifying Parties' respective Pro Rata Consideration Portions; *provided, however* , that in the event any Indemnifying Party fails to timely pay his, her or its Pro Rata Consideration Portion of the Agent Indemnification Expenses, the parties agree that Parent may at its option pay such Indemnifying Party's Pro Rata Consideration Portion of the Agent Indemnification Expenses and recover an equal amount (which shall be deemed an Agreed−Upon Loss) from such Indemnifying Party's Pro Rata Escrow Portion of the Escrow Fund.

(viii) The Escrow Agent may resign at any time upon giving at least thirty (30) days written notice to Parent and the Escrow Representative; *provided, however* , that no such resignation shall become effective until the appointment of a successor escrow agent which shall be accomplished as follows: Parent and the Escrow Representative shall use their commercially reasonable efforts to mutually

agree on a successor escrow agent within thirty (30) days after receiving such notice. If the parties fail to agree upon a successor escrow agent within such time, the Escrow Agent shall have the right to appoint a successor escrow agent authorized to do business in the State of California. The successor escrow agent shall execute and deliver an instrument accepting such appointment and it shall, without further acts, be vested with all the estates, properties, rights, powers, and duties of the predecessor escrow agent as if originally named as escrow agent. Upon appointment of a successor escrow agent, the Escrow Agent shall be discharged from any further duties and liability under this Agreement.

(e) Fees . All fees of the Escrow Agent for performance of its duties hereunder shall be paid by Parent in accordance with the standard fee schedule of the Escrow Agent. It is understood that the fees and usual charges agreed upon for services of the Escrow Agent shall be considered compensation for ordinary services as contemplated by this Agreement. In the event that the conditions of this Agreement are not promptly fulfilled, or if the Escrow Agent renders any service not provided for in this Agreement, or if the parties request a substantial modification of its terms, or if any controversy arises, or if the Escrow Agent is made a party to, or intervenes in, any litigation pertaining to the Escrow Fund or its subject matter, the Escrow Agent shall be reasonably compensated for such extraordinary services and reimbursed for all costs, attorney's fees, including allocated costs of in−house counsel, and expenses occasioned by such default, delay, controversy or litigation.

(f) Successor Escrow Agents . Any corporation into which the Escrow Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Escrow Agent in its individual capacity shall be a party, or any corporation to which substantially all the corporate trust business of the Escrow Agent in its individual capacity may be transferred, shall be the Escrow Agent under this Agreement without further act.

7.6 Third−Party Claims . In the event Parent becomes aware of a third party claim (other than a claim that is the subject of an Agreed−Upon Loss) (a " **Third Party Claim** ") which Parent reasonably believes may result in a demand against the Escrow Fund or for other indemnification pursuant to this **Article VII** , Parent shall notify the Escrow Representative (or, in the event indemnification is being sought hereunder from fewer than all the Indemnifying Parties, such applicable Indemnifying Party) of such claim, and the Escrow Representative shall be entitled on behalf of the Indemnifying Parties (or, in the event indemnification is being sought hereunder from fewer than all the Indemnifying Parties, the applicable Indemnifying Parties shall be entitled), at their expense, to participate in, but not to determine or conduct, the defense of such Third Party Claim. The failure to so notify the Escrow Representative shall not relieve the Indemnifying Parties of any Liability, except to the extent and only to the extent the Escrow Representative demonstrates that the defense of such action is materially prejudiced thereby. If there is a third party claim that, if adversely determined, would give rise to a right of recovery for Losses hereunder, then (A) with respect to the first $200,000 incurred by the Indemnified Parties in defense of all such third-party claims, 100% of such costs, regardless of the outcome of such claims, shall be deemed Losses hereunder, (B) with respect to the second $200,000 incurred by the Indemnified Parties in defense of all such third-party claims, 50% of such costs, regardless of the outcome of such claims, shall be deemed Losses hereunder and 50% of such costs, regardless of the outcome of such claims, shall not be Losses hereunder and shall be borne by the Indemnified Parties, (C) with respect to the any additional costs incurred by the Indemnified Parties in defense of all such third-party claims, 100% of such costs, regardless of the outcome of such claims, shall be deemed Losses hereunder. Parent shall have the right in its sole discretion to conduct the defense of, and to settle, any such claim; *provided, however,* that, except with the written consent of the Escrow Representative (or, in the event indemnification is being sought hereunder from fewer than all the Indemnifying Parties, such applicable Indemnifying Parties), no settlement of any such Third Party Claim with third party claimants shall be determinative of the existence or amount of Losses relating to such matter or whether an Indemnified Party is entitled to

indemnification pursuant to this **Article VII** ; *provided further, however,* the consent of the Escrow Representative with respect to any settlement of any such Third Party Claim shall be deemed to have been given unless the Escrow Representative shall have objected within thirty (30) days after receipt of a written request for such consent by Parent. The Escrow Agent shall not disburse any portion of the Escrow Fund to any third party except in accordance with joint written instructions received from Parent and the Escrow Representative. In the event that the Escrow Representative has consented in writing to any such settlement, the Indemnifying Parties shall have no power or authority to object under any provision of this **Article VII** to the amount of any Third Party Claim by Parent against the Escrow Fund, or against the Indemnifying Parties directly, as the case may be, with respect to such settlement constituting a Payable Claim. Upon the reasonable request of the Escrow Representative, Parent shall endeavor (but neither Parent nor any other Indemnified Party shall be under any obligation, contractual or otherwise) to keep the Escrow Representative reasonably apprised of the status of each Third Party Claim, provided that Parent shall not be required to provide access to any information that is subject to attorney-client privilege to the extent doing so, in the opinion of Parent's counsel, would cause such privilege to be waived (in which case, summaries of such privileged information will be made available to the extent not violating any such privilege) and the Escrow Representative shall have executed any common interest agreements or confidentiality agreements reasonably requested by Parent. Notwithstanding anything in this Agreement to the contrary, this **Section 7.6** shall not apply to any third party claim that is the subject of an Agreed−Upon Loss. Claims made in respect of any Agreed−Upon Loss shall be resolved in the manner described in **Section 7.4(b)(ii)** above.

7.7 Escrow Representative .

(a) The Escrow Representative is hereby appointed as of the date hereof as the exclusive agent and attorney in fact of the Indemnifying Parties as the Escrow Representative for and on behalf of the Indemnifying Parties to give and receive notices and communications in connection with this Agreement and related matters, including in connection with claims for indemnification under this **Article VII** and to agree to, negotiate, and enter into settlements, adjustments and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to, such claims, and to take all other actions that are either (i) necessary or appropriate in the judgment of the Escrow Representative for the accomplishment of the foregoing or (ii) specifically mandated by the terms of this Agreement. Notwithstanding the foregoing, the Escrow Representative shall have no obligation to act on behalf of the Indemnifying Parties, except as expressly provided herein, and for purposes of clarity, there are no obligations of the Escrow Representative in any ancillary agreement, schedule, exhibit or the Disclosure Schedule. Such agency may be changed by the Indemnifying Parties from time to time upon not less than ten (10) days prior written notice to Parent; *provided, however* , that the Escrow Representative may not be removed unless holders of a majority-in-interest of the Escrow Fund agree to such removal and to the identity of the substituted agent. A vacancy in the position of Escrow Representative may be filled by the holders of a majority-in-interest of the Escrow Fund. No bond shall be required of the Escrow Representative. Notices or communications to or from the Escrow Representative shall constitute notice to or from the Indemnifying Parties. The powers, immunities and rights to indemnification granted to the Escrow Representative and the Advisory Group hereunder: (i) are coupled with an interest and shall be irrevocable and survive the death, incompetence, bankruptcy or liquidation of the respective Indemnifying Party and shall be binding on any successor thereto, and (ii) shall survive the delivery of an assignment by any Indemnifying Party of the whole or any fraction of his, her or its interest in the Escrow Fund.

(b) Certain Indemnifying Parties have entered into a letter agreement with the Escrow Representative to provide direction to the Escrow Representative in connection with the performance of its services under this Agreement (such Indemnifying Parties, including their individual representatives, collectively hereinafter referred to as the " **Advisory Group** "). Neither the Escrow

Representative (together with its members, managers, directors, officers, contractors, agents and employees) nor any member of the Advisory Group (collectively, the " **Escrow Representative Group** ") shall be liable for any act done or omitted hereunder as Escrow Representative while acting in good faith and in the exercise of reasonable judgment. The Indemnifying Parties on whose behalf the Escrow Amount was contributed to the Escrow Fund shall indemnify the Escrow Representative Group and defend and hold the Escrow Representative Group harmless against any Loss, Liability or expense incurred without negligence, bad faith or willful misconduct on the part of the Escrow Representative Group and arising out of or in connection with the acceptance or administration of the Escrow Representative Group's duties hereunder, including the reasonable fees and expenses of any legal counsel or other skilled professionals retained by the Escrow Representative (" **Escrow Representative Expense** "). The immunities and rights to indemnification shall survive the resignation or removal of the Escrow Representative or any member of the Advisory Group and the Closing and/or any termination of this Agreement. The Indemnifying Parties acknowledge that the Escrow Representative shall not be required to expend or risk its own funds or otherwise incur any financial liability in the exercise or performance of any of its powers, rights, duties or privileges or administration of its duties. Following the termination of the Escrow Period and the resolution of all pending claims made by the Indemnified Parties for Losses, the Escrow Representative shall have the right to recover the Escrow Representative Expenses first, from the Expense Fund, second from any remaining portion of the Escrow Fund prior to any distribution to the Indemnifying Parties (and prior to any such distribution, shall deliver to the Escrow Agent a certificate setting forth the Escrow Representative Expenses actually incurred) and third, directly from the Indemnifying Parties. Upon receipt of such certificate, the Escrow Agent shall pay such Escrow Representative Expenses to the Escrow Representative. Parent agrees to consent in writing to the distribution, to the extent permitted herein, if so requested by the Escrow Agent. Notwithstanding the foregoing, the Escrow Representative's right to recover Escrow Representative Expenses shall not prejudice Parent's right to recover the full amount of indemnifiable Losses that Parent is entitled to recover from the Escrow Fund.

(c) Upon the Closing, Parent shall wire to the Escrow Representative $150,000 (the " **Expense Fund Amount** "). The Expense Fund Amount shall be held by the Escrow Representative as agent and for the benefit of the Indemnifying Parties in a segregated client account and shall be used for the purposes of paying directly, or reimbursing the Representative for, any Escrow Representative Expenses incurred pursuant to this Agreement or any Escrow Representative letter agreement (the " **Expense Fund** "). The Escrow Representative will hold the Expense Fund separate from its corporate funds and will not voluntarily make it available to its creditors in the event of bankruptcy. The Escrow Representative is not providing any investment supervision, recommendations or advice and shall have no responsibility or liability for any loss of principal of the Expense Fund other than as a result of its gross negligence or willful misconduct. The Escrow Representative is not acting as a withholding agent or in any similar capacity in connection with the Expense Fund, and has no tax reporting or income distribution obligations hereunder. As soon as reasonably determined by the Escrow Representative that the Expense Fund is no longer required to be withheld, Escrow Representative shall distribute the remaining Expense Fund (if any) to the Escrow Agent (or directly to the Paying Agent or Parent if so instructed) for further distribution to the Indemnifying Parties.

(d) The Escrow Representative shall be entitled to: (i) rely upon the Spreadsheet, (ii) rely upon any signature believed by it to be genuine, and (iii) reasonably assume that a signatory has proper authorization to sign on behalf of the applicable Indemnifying Party or other party. A decision, act, consent or instruction of the Escrow Representative, including but not limited to an amendment, extension or waiver of this Agreement pursuant to **Section 8.3** and **Section 8.4** hereof, shall constitute a decision of the Indemnifying Parties and shall be final, binding and conclusive upon the Indemnifying Parties and such Indemnifying Party's successors as if expressly confirmed and ratified in writing by such Indemnifying Party; and each Indemnifying Party waives any and all defenses which may be available to

contest, negate or disaffirm the action of the Escrow Representative taken in good faith under this Agreement. The Escrow Agent and Parent may rely upon any such decision, act, consent or instruction of the Escrow Representative as being the decision, act, consent or instruction of the Indemnifying Parties. The Escrow Agent and Parent are hereby relieved from any Liability to any Person for any acts done by them in accordance with such decision, act, consent or instruction of the Escrow Representative.

7.8 Tax Treatment . Any payment under **Article VII** of this Agreement shall be treated by the parties for U.S. federal, state, local and non-U.S. income Tax purposes as a purchase price adjustment unless otherwise required by applicable law.

7.9 Cost Basis Reporting. Subject to the Company's compliance with the covenant in **Section 5.19(c)** to provide such information to Parent on the Spreadsheet, and without in any way limiting the Indemnified Parties' right to be indemnified for any inaccuracies in the Spreadsheet in accordance with the terms of this **Article VII** , Parent and Company shall affirm in writing to Paying Agent whether the securities being exchanged, redeemed, or sold pursuant to the underlying Agreement are classified as "Covered Securities" or "Non-Covered Securities" under IRS Cost Basis Reporting regulations not later than 30 days after the distribution hereunder. If such securities are classified as "covered Securities," then Parent and the Surviving Corporation shall provide accurate and complete cost basis information to Paying Agent for purposes of Form 1099-B preparation. The required information shall include each Company Stockholder's date of acquisition and cost basis of the applicable security, and any other information that the Paying Agent may reasonably request to comply with IRS Form 1099-B reporting regulations. The foregoing information shall be based on the information set forth in the Spreadsheet, unless Parent or the Surviving Corporation determine that any such information was inaccurate.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

8.1 Termination . Except as provided in **Section 8.2** hereof, this Agreement may be terminated and the Merger abandoned at any time prior to the Closing:

(a) by mutual agreement of the Company and Parent; or

(b) by Parent or the Company if the Closing Date shall not have occurred by November 30, 2014; *provided, however* , that the right to terminate this Agreement under this **Section 8.1(b)** shall not be available to any party whose action or failure to act has been a proximate cause of or resulted in the failure of the Merger to occur on or before such date and such action or failure to act constitutes breach of this Agreement;

(c) by Parent if the Initial Stockholder Consent executed by the Company Stockholders that represent the Requisite Stockholder Vote is not delivered to Parent within twelve (12) hours following the exchange of signature pages to this Agreement by Parent, Sub and the Company pursuant to **Section 5.1(a)** hereof;

(d) by Parent or the Company if any Governmental Entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction, order or other legal restraint which is in effect and which has the effect of making the Merger illegal;

(e) by Parent if there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger by any Governmental Entity, which would constitute an Action of Divestiture;

(f) by Parent if it is not in material breach of its obligations under this Agreement and either (i) there has been a breach of any representation, warranty, covenant or agreement of the Company contained in this Agreement such that the conditions set forth in **Section 6.2(a)** hereof would not be satisfied and such breach has not been cured within twenty (20) Business Days after written notice thereof to the Company; *provided, however* , that no cure period shall be required for a breach which by its nature cannot be cured, or (ii) any of the conditions to Closing in **Article VI** for the benefit of Parent are incapable of being satisfied on or before the date specified in **Section 8.1(b)** ; or

(g) by the Company if the Company is not in material breach of its obligations under this Agreement and either (i) there has been a breach of any representation, warranty, covenant or agreement of Parent contained in this Agreement such that the conditions set forth in **Section 6.3(a)** hereof would not be satisfied and such breach has not been cured within twenty (20) Business Days after written notice thereof to Parent; *provided, however* , that no cure period shall be required for a breach which by its nature cannot be cured, or (ii) any of the conditions to Closing in **Article VI** for the benefit of the Company are incapable of being satisfied on or before the date specified in **Section 8.1(b)** .

8.2 Effect of Termination . In the event of termination of this Agreement as provided in **Section 8.1** hereof, this Agreement shall forthwith become void and there shall be no Liability or obligation on the part of Parent or the Company, or their respective officers, directors or stockholders, if applicable; *provided* , *however* , that each party hereto and each Person shall remain liable for any knowing and willful breaches of this Agreement or any Related Agreements prior to its termination; and *provided further* , *however* , that, the provisions of **Section 5.3** (Confidentiality), **Section 5.4** (Public Disclosure), **Section 5.17** (Expenses), **Section 7.3(d)** (Maximum Payments; Remedy), **Article IX** (GENERAL PROVISIONS) and this **Section 8.2** shall remain in full force and effect and survive any termination of this Agreement pursuant to the terms of this **Article VIII** .

8.3 Amendment . This Agreement may be amended by the parties hereto at any time by execution of an instrument in writing signed on behalf of the party against whom enforcement is sought. For purposes of this **Section 8.3** , the Indemnifying Parties agree that any amendment of this Agreement signed by the Escrow Representative shall be binding upon and effective against the Indemnifying Parties whether or not they have signed such amendment.

8.4 Extension; Waiver . At any time prior to the Closing, Parent, on the one hand, and the Company and the Escrow Representative, on the other hand, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations of the other party hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the covenants, agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. For purposes of this **Section 8.4** , the Indemnifying Parties agree that any extension or waiver signed by the Escrow Representative shall be binding upon and effective against all Indemnifying Parties whether or not they have signed such extension or waiver.

ARTICLE IX

GENERAL PROVISIONS

9.2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial messenger or courier service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with acknowledgment of complete transmission) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice or, if specifically provided for elsewhere in this Agreement such as **Section 4.3** , by email); *provided* , *however* , that notices sent by mail will not be deemed given until received:

(a) if to Parent, to:

Cornerstone OnDemand, Inc.
1601 Cloverfield Blvd.
Suite 620 South
Santa Monica, CA 90404
Attention: General Counsel
Facsimile No.: 1 (310) 752-0199

with a copy to (which shall not constitute notice):

Wilson Sonsini Goodrich & Rosati, Professional Corporation
650 Page Mill Road
Palo Alto, CA 94304
Attention: Rachel B. Proffitt
Facsimile No.: (650) 493−6811

(b) if to the Company or the Escrow Representative, to:

Fortis Advisors LLC
Attention: Notice Department
Email: notices@fortisrep.com
Facsimile No.: (858) 408-1843

with a copy to (which shall not constitute notice):

Goodwin Procter LLP
135 Commonwealth Drive
Menlo Park, CA 94025
Attention: Lawrence M. Chu
Facsimile No.: (650) 853-1038

(c) If to an Indemnifying Party, to its address on set forth in the Spreadsheet.

(d) If to the Escrow Agent, to:

U.S. Bank National Association
Corporate Trust Services
One California Street, Suite 1000
San Francisco, California 94111
Attention: John Collins
Facsimile No.: (415) 677−3769

9.2 Interpretation .

(a) The words “include,” “includes” and “including” when used herein shall be deemed in each case to be followed by the words “without limitation.”

(b) The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(c) The words “hereof,” “herein” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement,

(d) Article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified.

(e) The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(f) A reference to any party to this Agreement or any other agreement or document shall include such party’s successors and permitted assigns.

(g) A reference to any specific legislation or to any provision of any legislation shall include any amendment to, and any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(h) No summary of this Agreement or any exhibit or schedule delivered herewith prepared by or on behalf of any party will affect the meaning or interpretation of this Agreement or any such exhibit or schedule.

(i) With respect to the determination of any period of time, “from” shall mean “from and including” and “to” shall mean “to but excluding.”

(j) Documents or other information and materials shall be deemed to have been “ **made available** ” by the Company if and only if the Company has posted such documents and information and other materials to a virtual data room managed by the Company at https://wwwna1.rrdvenue.com/ prior to 9:00 a.m. on the date hereof.

(k) Dollar thresholds shall not be indicative of what is material or create any standard with respect to any determination of a Material Adverse Effect.

9.3 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument. A facsimile, telecopy or other reproduction of this Agreement may be executed by one or more parties hereto and delivered by such party by facsimile or any similar electronic transmission device pursuant to which the signature of or on behalf of such party can be seen. Such execution and delivery shall be considered valid, binding and effective for all purposes. At the request of any party hereto, all parties hereto agree to execute and deliver an original of this Agreement as well as any facsimile, telecopy or other reproduction hereof.

9.4 Entire Agreement; Assignment. This Agreement, the exhibits hereto, the Disclosure Schedule, the Confidential Disclosure Agreement and the Related Agreements: (i) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings both written and oral, among the parties with respect to the subject matter hereof, (ii) are not intended to confer upon any other Person any rights or remedies hereunder except that (A) **Article VII** shall be for the benefit of not only the parties hereto but also each of the Indemnified Parties and (B) **Section 5.22** shall also be for the benefit of the Company Indemnitees, and (iii) shall not be assigned by operation of law or otherwise, except that Parent may assign its rights and delegate its obligations hereunder to its affiliates as long as Parent remains ultimately liable for all of Parent's obligations hereunder.

9.5 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other Persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

9.6 Other Remedies. Except as otherwise set forth herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

9.7 Governing Law; Exclusive Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. Subject to **Section 4.2(b)** , **Section 7.4(a)** and **Section 9.9** hereof, each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue of any court within the State of Delaware, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Delaware for such Persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction, venue and such process. Subject to **Section 4.2(b)** , **Section 7.4(a)** and **Section 9.9** hereof, each party agrees not to commence any legal proceedings related hereto except in such courts.

9.8 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

9.9 Resolution of Conflicts; Arbitration. Subject to **Section 4.2(b)** , **Section 7.4(c)** and **Section 9.9(d)** , any claim or dispute arising out of or related to this Agreement, or the interpretation,

making, performance, breach or termination thereof, shall (except as specifically set forth in this Agreement) be finally settled by binding arbitration in the County of Los Angeles, California in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association and judgment upon the award rendered may be entered in any court having jurisdiction thereof. The arbitrator(s) shall have the authority to grant any equitable and legal remedies that would be available in any judicial proceeding instituted to resolve a dispute.

(a) Selection of Arbitrators . Such arbitration shall be conducted by a single arbitrator chosen by mutual agreement of Parent and the Escrow Representative (or the Company, if such arbitration occurs prior to the Closing). Alternatively, at the request of either party before the commencement of arbitration, the arbitration shall be conducted by three independent arbitrators, none of whom shall have any competitive interests with Parent or Escrow Representative (or the Company, if such arbitration occurs prior to the Closing). Parent and Escrow Representative (or the Company, if such arbitration occurs prior to the Closing) shall each select one arbitrator. The two arbitrators so selected shall select a third arbitrator.

(b) Discovery . In any arbitration under this **Section 9.9** , each party shall be limited to calling a total of three witnesses both for purposes of deposition and the arbitration hearing. Subject to the foregoing limitation on the number of witnesses, the arbitrator or arbitrators, as the case may be, shall set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrator or majority of the three arbitrators, as the case may be, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrator, or a majority of the three arbitrators, as the case may be, shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions for discovery abuses, including attorneys' fees and costs, to the same extent as a competent court of law or equity, should the arbitrators or a majority of the three arbitrators, as the case may be, determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification.

(c) Decision . The decision of the arbitrator or a majority of the three arbitrators, as the case may be, as to any claim or dispute (including the validity and amount of any indemnification claim set forth in an Officer's Certificate) shall be final, binding, and conclusive upon the parties to this Agreement. Such decision shall be written and shall be supported by written findings of fact and conclusions that shall set forth the award, judgment, decree or order awarded by the arbitrator(s). Within 30 days of a decision of the arbitrator(s) requiring payment by one party to another, such party shall make the payment to such other party, including any distributions out of the Escrow Fund, as applicable.

(d) Other Relief . The parties to the arbitration may apply to a court of competent jurisdiction for a temporary restraining order, preliminary injunction or other interim or conservatory relief, as necessary, without breach of this arbitration provision and without abridgement of the powers of the arbitrator(s).

(e) Costs and Expenses . The parties agree that each party shall pay its own costs and expenses (including counsel fees) of any such arbitration, and each party waives its right to seek an order compelling the other party to pay its portion of its costs and expenses (including counsel fees) for any arbitration.

(f) Confidentiality . The parties agree that any claim or dispute arising out of or related to this Agreement, or the interpretation, making, performance, breach or termination thereof, shall be treated as " **Confidential Information** " in accordance with, and as defined by, the terms set forth in the Confidential Disclosure Agreement.

9.10 Certain Procedures for Opening an Escrow Account. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify and record information that identifies each Person who opens an account. For a non-individual Person such as a business entity, a charity, a trust or other legal entity the Escrow Agent will ask for documentation to verify its formation and existence as a legal entity. The Escrow Agent may also ask to see financial statements, licenses, identification and authorization documents from individuals claiming authority to represent the entity or other relevant documentation.

9.11 Legal Counsel. The parties hereto acknowledge that Wilson Sonsini Goodrich & Rosati, Professional Corporation (" **WSGR** ") has represented Parent and Goodwin Procter LLP (" **Goodwin** ") has represented the Company, in each case in connection with the negotiation and execution of this Agreement, the Related Agreements and the transactions contemplated hereby and thereby, and neither WSGR nor Goodwin has undertaken to represent any other party in connection therewith.

9.12 Waiver of Representations; Disclaimer. Except as expressly set forth in this Agreement, the Certificates, the Related Agreements or the Disclosure Schedule, Parent acknowledges that (a) none of the Company nor any other Person has made any representation or warranty, express or implied, as to the Company, the accuracy or completeness of any information regarding the Company furnished or made available to Parent, Merger Sub and their representatives, including, without limitation, any internal budgets, plans, projections or forecasts for any period made by or on behalf of the Company of any kind or nature, or any other matter related to the transactions contemplated herein, and (b) Parent and Merger Sub have not relied on any representation or warranty from the Company or any other Person in determining to enter into this Agreement; *provided, however*, that that the foregoing shall not apply to claims for Losses pursuant to **Section 7.2(a)(vii)** and/or **Section 7.2(b)**.

ARTICLE X

TAXES

10.1 Cooperation. Each of Parent, the Company Stockholders, the Escrow Representative, and the Company shall cooperate fully, as and to the extent reasonably requested by any of the others, in connection with the filing of Tax Returns and any legal proceeding with respect to Taxes. Such cooperation shall include the retention and (upon request therefor) the provision of records and information reasonably relevant to any such legal proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Parent, the Company, and the Company Stockholders agree to retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until expiration of the statute of limitations of the respective taxable periods, and to abide by all record retention agreements entered into with any Governmental Entity with jurisdiction over tax matters (" **Tax Authority** ").

10.2 Tax Returns. Parent shall prepare or cause to be prepared, and file or cause to be filed all Tax Returns of the Company for any Pre-Closing Tax Period, including any Straddle Period, that are required to be filed after the Closing Date (the " **Pre-Closing Tax Returns** "). For all such Pre-Closing Tax Returns, (i) Parent shall deliver a draft of any such income or other material Tax Return that reflects a Tax for which the Indemnifying Parties are liable to the Escrow Representative for review and comment at least fifteen (15) Business Days prior the filing thereof; and (ii) Parent shall consider in good faith any reasonable changes or comments that the Escrow Representative submits to Parent no less than seven (7) Business Days prior to the due date for such Tax Return. For the avoidance of doubt, Pre-Closing Tax Returns shall include any filings, statements, agreements or other Tax Returns filed pursuant to a state voluntary disclosure initiative or similar program.

10.3 Tax Contests . Parent and the Company, on the one hand, and the Company Stockholders, the Escrow Representative and each of their Affiliates, on the other hand, shall promptly notify each other upon receipt by such party of written notice of any inquiries, claims, actions, suits, assessments, audits or similar proceedings or events with respect to Taxes relating to a Pre-Closing Tax Period (a " **Tax Matter** "). Any failure to so notify the other party of any Tax Matter shall not relieve such other party of any Liability with respect to such Tax Matters.

10.4 Refunds . Except to the extent attributable to the carryback of any Tax Attribute or Tax benefit generated after the Closing Date, the Company Stockholders shall be entitled to the amount of any refund or credit for overpayment of Taxes of the Company attributable to a Pre-Closing Tax Period to the extent such refund or credit is actually recognized by Parent or its Affiliates, net of any reasonable out-of-pocket expenses and any non-indemnified Tax cost to Parent of obtaining such refund or credit. To the extent such refund or credit for overpayment is subsequently disallowed or required to be returned to the applicable Tax Authority, the Company Stockholders agree to promptly repay the amount of such refund or credit for overpayment, together with any interest, penalties or other additional amounts imposed by such Tax Authority to Parent. For the avoidance of doubt, Parent shall not be under any obligation to seek any refund of Taxes.

10.5 Amendments; Elections . Parent shall not amend any Tax Return of, or make or change any Tax election (including without limitation pursuant to Section 338 of the Code) with respect to the Company for a Tax period ending on or before the Closing Date without the Escrow Representative's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, unless such amendment or change is required in Parent's sole reasonable discretion to avoid the imposition of penalties.

10.6 Xerox Receivable . In the event the Company determines, after consultation with Parent in good faith, that any amount is required to be included in the calculation of Unpaid Pre-Closing Taxes on or prior to the Closing Date on account of sales Taxes that the Company failed to collect from transactions entered into with Xerox Corporation and/or any of its subsidiaries, then, notwithstanding any other provision of this Agreement to the contrary, the Company shall be permitted to invoice Xerox Corporation and/or its appropriate subsidiaries for the amount of such sales Taxes and the amount so invoiced shall be treated as an account receivable (the " **Xerox Receivable** ") and a Current Asset for purposes of determining the Adjusted Net Equity Amount set forth on the Closing Statement; provided, however, that such invoiced amount shall not be treated as an account receivable or a Current Asset for purposes of the Post-Closing Statement (but any amounts collected in respect of such account receivable as of the date on which the Post-Closing Statement is delivered to the Escrow Representative pursuant to **Section 1.8(b)** shall be treated as a Current Asset for such purpose).

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, Parent, Sub, the Company, the Escrow Agent and the Escrow Representative have caused this Agreement to be signed, all as of the date first written above.

CORNERSTONE ONDEMAND, INC.

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

(Signature Page to Agreement and Plan of Merger)

IN WITNESS WHEREOF, Parent, Sub, the Company, the Escrow Agent and the Escrow Representative have caused this Agreement to be signed, all as of the date first written above.

DATA ACQUISITION SUB, INC.

By: /s/ Adam Miller
Name: Adam Miller
Title: Chief Executive Officer, President & Secretary

(Signature Page to Agreement and Plan of Merger)

IN WITNESS WHEREOF, Parent, Sub, the Company, the Escrow Agent and the Escrow Representative have caused this Agreement to be signed, all as of the date first written above.

EVOLV INC.

By: /s/ Maxwell Simkoff
Name: Maxwell Simkoff
Title: Chief Executive Officer

(Signature Page to Agreement and Plan of Merger)

IN WITNESS WHEREOF, Parent, Sub, the Company, the Escrow Agent and the Escrow Representative have caused this Agreement to be signed, all as of the date first written above.

ESCROW AGENT:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ John Collins
Name: John Collins
Title: Trust Officer

ESCROW REPRESENTATIVE:

FORTIS ADVISORS LLC

By: /s/ Ryan Simkin
Name: Ryan Simkin
Title: Managing Director

Exhibit 21.1

SUBSIDIARIES OF THE COMPANY

SUBSIDIARIES:

Cornerstone OnDemand Global Operations, Inc. (Delaware)
Cornerstone OnDemand Holdings, Inc. (Delaware)
Cornerstone OnDemand Limited (United Kingdom)
Cornerstone OnDemand Services India Private Limited (India)
Cornerstone OnDemand Spain SL (Spain)
Evolv Inc. (Delaware)
Sonar Limited (New Zealand)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-194198, 333-189389, 333-180311, 333-173754) of Cornerstone OnDemand, Inc. of our report dated February 27, 2015 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
February 27, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302(A)
OF THE SARBANES-OXLEY ACT OF 2002

I, Adam L. Miller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cornerstone OnDemand, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Adam L. Miller

Adam L. Miller
President and Chief Executive Officer

Date: February 27, 2015

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302(A)
OF THE SARBANES-OXLEY ACT OF 2002

I, Perry A. Wallack, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cornerstone OnDemand, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Perry A. Wallack

Perry A. Wallack
Chief Financial Officer

Date: February 27, 2015

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Adam L. Miller, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Cornerstone OnDemand, Inc. on Form 10-K for the fiscal year ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cornerstone OnDemand, Inc.

/s/ Adam L. Miller

Adam L. Miller
President and Chief Executive Officer

Date: February 27, 2015

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Perry A. Wallack, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Cornerstone OnDemand, Inc. on Form 10-K for the fiscal year ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cornerstone OnDemand, Inc.

/s/ Perry A. Wallack

Perry A. Wallack
Chief Financial Officer

Date: February 27, 2015