Verso Corp
Form 10-Q
August 11, 2015

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

VERSO CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation or Organization)	001-34056 (Commission File Number)	75-3217389 (IRS Employer Identification Number)

VERSO PAPER HOLDINGS LLC
(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation or Organization)	333-142283 (Commission File Number)	56-2597634 (IRS Employer Identification Number)

6775 Lenox Center Court, Suite 400
Memphis, Tennessee 38115-4436
(Address, including zip code, of principal executive offices)

(901) 369-4100
(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Verso Corporation	þ Yes o No
Verso Paper Holdings LLC	þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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).

Verso Corporation	þ Yes o No
Verso Paper Holdings LLC	þ Yes o No

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

Verso Corporation			
Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o
Verso Paper Holdings LLC			
Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Verso Corporation	o Yes þ No
Verso Paper Holdings LLC	o Yes þ No

As of July 31, 2015, Verso Corporation had 81,837,254 outstanding shares of common stock, par value $0.01 per share, and Verso Paper Holdings LLC had one outstanding limited liability company interest.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Verso Corporation and Verso Paper Holdings LLC.

Entity Names and Organization

Within our organization, Verso Corporation, formerly named Verso Paper Corp., is the ultimate parent entity and the sole member of Verso Paper Finance Holdings One LLC, which is the sole member of Verso Paper Finance Holdings LLC, which is the sole member of Verso Paper Holdings LLC. As used in this report, the term “Verso” refers to Verso Corporation; the term “Verso Finance” refers to Verso Paper Finance Holdings LLC; the term “Verso Holdings” refers to Verso Paper Holdings LLC; the term “NewPage” refers to NewPage Holdings Inc., a Delaware corporation, which is an indirect, wholly owned subsidiary of Verso pursuant to the Merger Agreement (see below); the term “NewPage Corp” refers to NewPage Corporation, a Delaware corporation, which is an indirect, wholly owned subsidiary of NewPage; and the term for any such entity includes its direct and indirect subsidiaries when referring to the entity’s consolidated financial condition or results. Unless otherwise noted, references to “we,” “us,” and “our” refer collectively to Verso and Verso Holdings. Other than Verso’s common stock transactions, Verso Finance’s debt obligation and related financing costs and interest expense, Verso Holdings’ loan to Verso Finance, and the debt obligation of Verso Holdings’ consolidated variable interest entity to Verso Finance, the assets, liabilities, income, expenses and cash flows presented for all periods represent those of Verso Holdings in all material respects. Unless otherwise noted, the information provided pertains to both Verso and Verso Holdings.

On January 3, 2014, Verso, Verso Merger Sub Inc., a Delaware corporation and an indirect, wholly owned subsidiary of Verso, or “Merger Sub,” and NewPage entered into an Agreement and Plan of Merger, or the “Merger Agreement,” pursuant to which the parties agreed to merge Merger Sub with and into NewPage on the terms and subject to the conditions set forth in the Merger Agreement, with NewPage surviving the merger as an indirect, wholly owned subsidiary of Verso. On January 7, 2015, Verso consummated the acquisition of NewPage through the merger of Merger Sub with and into NewPage, or the “NewPage acquisition,” pursuant to the Merger Agreement. As a result of the merger of Merger Sub with and into NewPage, Merger Sub’s separate corporate existence ceased and NewPage continued as the surviving corporation and an indirect, wholly owned subsidiary of Verso (see Note 4). As such, the Unaudited Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2015, include the impact of NewPage’s operations on our business.

Forward-Looking Statements

In this quarterly report, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may be identified by the words “believe,” “expect,” “anticipate,” “project,” “plan,” “estimate,” “intend,” and other similar expressions. Forward-looking statements are based on currently available business, economic, financial, and other information and reflect management’s current beliefs, expectations, and views with respect to future developments and their potential effects on us. Actual results could vary materially depending on risks and uncertainties that may affect us and our business. For a discussion of such risks and uncertainties, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report and to Verso’s and Verso Holdings’ other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement made in this quarterly report to reflect subsequent events or circumstances or actual outcomes.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	VERSO		VERSO HOLDINGS			
	June 30,	December 31,	June 30,	December 31,		
(Dollars in millions)	2015	2014	2015	2014		
ASSETS						
Current assets:						
Cash and cash equivalents	$14	$6	$14	$6		
Accounts receivable, net	247	88	247	88		
Inventories	559	110	559	110		
Assets held for sale	—	61	—	61		
Prepaid expenses and other assets	18	11	18	11		
Total current assets	838	276	838	276		
Property, plant, and equipment, net	2,006	531	2,006	531		
Intangibles and other assets, net	125	71	149	94		
Total assets	$2,969	$878	$2,993	$901		
LIABILITIES AND EQUITY						
Current liabilities:						
Accounts payable	$192	$63	$192	$63		
Accrued liabilities	290	205	290	206		
Current maturities of long-term debt	22	30	22	30		
Liabilities related to assets held for sale	—	2	—	2		
Total current liabilities	504	300	504	301		
Long-term debt	2,771	1,297	2,794		7,161	(2,858)

Effect of exchange rates on cash		(150)	115
Net increase (decrease) in cash and cash equivalents		(13,685)	29,390
Cash and cash equivalents at beginning of period		108,699	31,441
Cash and cash equivalents at end of period	$	95,014	$ 60,831
Supplemental disclosures of cash flow information			
Cash paid during the period for interest	$	97	$ 1,021
Cash paid during the period for taxes	$	149	$
Supplemental disclosures of noncash financing and investing activities			
Fixed asset purchases included in accounts payable	$	1,812	$ 1,127
Acquisition of equipment and software under capital leases	$		$ 397

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

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The Active Network, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

The Active Network, Inc., a Delaware corporation, and its subsidiaries (Active or the Company), provide cloud computing applications for activity and participant management that form an online network connecting a fragmented and diverse group of activity and event organizers with a large base of potential participants. The Company s technology platform transforms the way organizers manage their activities and events by automating online registrations and streamlining other critical management functions, while driving consumer participation to their activities and events.

2. Basis of Presentation

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Active and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of March 31, 2012, the condensed consolidated statements of operations for the three months ended March 31, 2012 and 2011 and condensed consolidated statements of cash flows for the three months ended March 31, 2012 and 2011 are unaudited. The unaudited condensed consolidated interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company s financial condition and results of operations and cash flows for the three months ended March 31, 2012 and 2011. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to the three months ended March 31, 2012 and 2011 are unaudited. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for fiscal year 2012 or for any other interim period or for any other future year. These unaudited condensed consolidated financial statements and notes hereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure 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.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an update to increase the prominence of items reported in other comprehensive income. This update eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and requires an entity to present comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance is effective for interim and annual periods beginning after December 15, 2011, and is to be applied retrospectively. The adoption of this guidance affected the presentation of other comprehensive income but did not affect the Company s financial position or results of operations.

In September 2011, the FASB issued revised guidance to simplify how entities test goodwill for impairment. Under the revised guidance, entities have the option to first assess 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 as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing qualitative factors, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The updates are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company will adopt this revised guidance during the annual goodwill impairment test in the year ended December 31, 2012, and does not expect that the adoption will have a material effect on the Company s consolidated financial statements.

3. Business Combinations

Acquisition of StarCite, Inc.

On December 30, 2011, the Company completed the acquisition of all of the outstanding shares of StarCite, Inc. (StarCite), a provider of a technology platform that delivers content and services for meetings and event planning to corporations, hotels, venues and meetings suppliers for consideration of $57.6 million in cash, shares of the Company s common stock, and contingently issuable shares of the Company s common stock. The acquisition enables the Company to provide an integrated solution for the events space and broaden its customer base.

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Total consideration comprised $38.1 million in cash, 1,350,000 shares of common stock with a fair value of approximately $18.4 million and 150,000 shares of contingently issuable common stock with an acquisition date fair value of approximately $1.1 million to be issued in the event that the Company s shares of common stock do not close trading at or above $15.00 per share on the New York Stock Exchange for at least three consecutive days at any time during the sixty day period following the effective date of a registration statement filed to register the shares issued, pursuant to the agreement and plan of merger. The estimated fair value of the contingent consideration was determined using the Monte Carlo Simulation approach, which involves key assumptions including the estimated contingency period, volatility of the common stock and the probability of achieving the targeted price and was included in current liabilities in the consolidated balance sheets. As of March 31, 2012, the estimated fair value of the contingent consideration was less than $0.1 million. The change in the estimated fair value of the contingent consideration was recorded in other income in the Company s condensed consolidated statements of operations. This estimated fair value of the contingent consideration may differ from the amount that is ultimately payable with any changes in the liability recorded as acquisition-related costs in the Company s consolidated statements of operations until the common stock has been registered.

The acquisition agreement included an initial escrow of approximately $0.3 million in cash to cover potential expenses of the securityholders agent and 300,000 common shares valued at approximately $4.1 million, based on the closing price of the Company s common stock on the last trading day of fiscal 2011 to satisfy any claims under the indemnification provisions of the agreement for a period of 12 months following the acquisition date. The purchase price is also subject to adjustment based on certain minimum closing working capital thresholds defined under the purchase agreement, which are expected to be settled in the first half of fiscal 2012.

As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the estimated fair value of assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible liabilities acquired and identifiable intangible assets, which is expected to be completed during 2012. The estimated fair value of assets acquired and liabilities assumed for the StarCite acquisition, as of the date of the acquisition, is as follows (in thousands) (unaudited):

Cash	$ 572
Restricted cash	692
Accounts receivable	14,566
Prepaid and other assets	1,301
Fixed assets	1,912
Goodwill	21,780
Intangible assets	36,500
Accounts payable	(1,398)
Accrued expenses	(5,459)
Deferred revenue	(11,286)
Capital lease obligations	(480)
Other liabilities	(370)
Unfavorable leases	(695)
Total purchase price	$ 57,635

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands) (unaudited):

	Gross Amount at Acquisition Date	Amortization Period
Trademarks	$ 5,100	9 years
Customer relationships	17,300	9 years
Customer contracts	6,800	3 years
Complete technology	6,500	9 years
Non-compete agreements	800	1 year
	$ 36,500	

Goodwill of $21.8 million, none of which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from StarCite. The carrying amount of goodwill is allocated to the technology operating segment of the Company.

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The Company also entered into termination agreements with certain StarCite executives in connection with the acquisition resulting in an expense of approximately $1.9 million. These expenses were treated as acquisition-related expenses and were included in the consolidated statements of operations during fiscal 2011.

Pro Forma Financial Information (unaudited)

The following table presents the unaudited pro forma results for the three months ended March 31, 2012 and 2011. The unaudited pro forma financial information combines the results of operations of the Company and StarCite as though the companies had been combined as of the beginning of fiscal 2011. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from these acquisitions including amortization charges from acquired intangible assets as though StarCite was combined as of the beginning of fiscal year 2011. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition of StarCite had taken place at the beginning of fiscal year 2011.

	Three Months Ended March 31, 2012 (Unaudited) (In thousands, except per share data)	2011
Net revenue	$ 94,438	$ 83,575
Net loss attributable to common shareholders	$ (20,338)	$ (22,767)
Basic and diluted net loss per share attributable to common shareholders	$ (0.36)	$ (2.31)

Acquisition of RTP, LLC

In November 2011, the Company completed the purchase of all of the outstanding units of RTP, LLC (RTP), a provider of integrated resort software and solutions. The acquisition enables the Company to strengthen its position as a technology leader and broaden its customer base into the resort space. The purchase consideration was approximately $21.5 million in cash.

The acquisition agreement included an initial escrow of approximately $2.1 million of the total purchase price consideration to satisfy any claims under the indemnification provisions of the agreement for a period of 18 months from the acquisition date. The purchase price is also subject to adjustment based on certain minimum closing working capital thresholds defined under the purchase agreement, which are expected to be settled in the first half of fiscal 2012.

As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the estimated fair value of assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible assets acquired and identifiable intangible assets, which is expected to be completed during 2012. The estimated fair value of assets acquired and liabilities assumed for the RTP acquisition, as of the date of the acquisition, is as follows (in thousands) (unaudited):

Cash	$ 903
Accounts receivable	5,648
Prepaid and other assets	1,050
Fixed assets	309
Goodwill	3,394
Intangible assets	15,960
Accounts payable	(2,821)
Accrued expenses	(435)
Deferred revenue	(2,375)
Other liabilities	(133)
Total purchase price	$ 21,500

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The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands) (unaudited):

	Gross Amount at Acquisition Date	Amortization Period
Trademarks	$ 1,350	5 years
Customer relationships	9,700	13 years
Customer contracts	510	2 years
Complete technology	2,900	9 years
Non-compete agreements	1,500	3 years
	$ 15,960	

Goodwill of $3.4 million, which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from RTP. Approximately $3.0 million and $0.4 million of the carrying amount of goodwill is allocated to the technology and marketing services operating segments of the Company, respectively.

Acquisition of ServiceU

In October 2011, the Company acquired all of the outstanding common shares of ServiceU, a provider of web-based solutions for giving, event registration, ticketing, calendaring and resource management. The acquisition enables the Company to strengthen its position as a technology leader and broaden its customer base in the faith space. The purchase consideration was approximately $11.1 million in cash.

As of the date of this Quarterly Report on Form 10-Q, the Company is still finalizing the estimated fair value of assets acquired and liabilities assumed. The primary areas of those preliminary estimates that are not yet finalized related to certain tangible assets acquired and identifiable intangible assets, which is expected to be completed during 2012. The estimated fair value of assets acquired and liabilities assumed for the ServiceU acquisition, as of the date of the acquisition, is as follows (in thousands) (unaudited):

Cash	$ 13
Accounts receivable	201
Prepaid and other assets	51
Fixed assets	249
Goodwill	4,388
Intangible assets	10,377
Accounts payable	(21)
Accrued expenses	(132)
Deferred revenue	(42)
Capital lease obligations	(120)
Deferred tax liability	(3,914)
Total purchase price	$ 11,050

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands) (unaudited):

	Gross Amount at Acquisition Date	Amortization Period

Trademarks	$	250	2 years
Customer relationships		8,300	14 years
Complete technology		1,229	6 years
Non-compete agreements		598	3 years
	$	10,377	

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Goodwill of $4.4 million, none of which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from ServiceU. The carrying amount of goodwill is allocated to the technology operating segment of the Company.

Fellowship Technologies, Inc.

In February 2011, the Company acquired Fellowship Technologies, Inc. (Fellowship), a provider of web-based software to religious institutions. The acquisition enables the Company to strengthen its position as a technology leader and broaden its customer base in the faith space. The purchase consideration was approximately 1,125,000 shares of the Company s common stock valued at approximately $8.9 million.

The estimated fair value of assets acquired and liabilities assumed for the Fellowship acquisition, as of the date of the acquisition, is as follows (in thousands):

Cash	$ 520
Accounts receivable	195
Prepaid and other assets	15
Fixed assets	530
Security deposits	58
Goodwill	5,680
Intangible assets	3,568
Accounts payable	(101)
Deferred revenue	(528)
Capital lease obligations	(481)
Other liabilities	(187)
Unfavorable leases	(404)
Total purchase price	$ 8,865

The acquisition was accounted for as a purchase business combination. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

	Gross Amount at Acquisition Date	Amortization Period
Trademarks	$ 197	3 years
Customer contract/relationships	2,730	4 years
Complete technology	641	4 years
	$ 3,568	

Goodwill of $5.7 million, which is deductible for tax purposes, represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed from Fellowship. Approximately $5.7 million of the carrying amount of goodwill is allocated to the technology operating segment of the Company.

Other Business Combinations

During the year ended December 31, 2011, the Company acquired operations from two other businesses including a provider of web-based church management solutions and a provider of online registration for endurance events. The Company acquired the assets of these two businesses in exchange for $4.6 million in cash. These acquisitions enable the Company to strengthen its position as a technology leader and broaden its customer base in the faith and endurance spaces. The fair value of assets acquired and liabilities assumed was as follows (in thousands):

Cash	$ 14
Accounts receivable	145
Prepaid and other assets	12
Goodwill	1,362
Intangible assets	3,427
Accounts payable	(20)
Accrued expenses	(27)
Deferred revenue	(296)
Total purchase price	$ 4,617

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The acquisitions were accounted for as purchase business combinations. The excess of the purchase price over the aggregate fair value was recorded as goodwill, which is deductible for tax purposes. The following table summarizes the identifiable intangible assets acquired as of the date of the acquisition (dollars in thousands):

	Gross Amount at Acquisition Date	Amortization Period
Customer contract/relationships	$ 3,392	3 years
Complete technology	35	3 years
	$ 3,427	

4. Fair Value Measurements

FASB guidance for fair value measurements clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The Company s assets and liabilities that are measured at fair value as of March 31, 2012 are as follows (in thousands):

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Accrued liabilities:				
Contingent consideration associated with business combination (Note 3)	$	$	$ 38	$ 38

The Company s assets and liabilities that are measured at fair value as of December 31, 2011 are as follows (in thousands):

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Accrued liabilities:				
Contingent consideration associated with business combination (Note 3)	$	$	$ 1,124	$ 1,124

Level 3 liabilities include contingent consideration payables to selling shareholders, the values of which were determined based on the probability of achieving specific targets. Any change in the fair value of the contingent milestone consideration subsequent to the acquisition date will be recognized in earnings. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobserved inputs that are supported by little or no market activity and reflect the Company s own assumptions in measuring fair value.

The following table provides a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31, 2012 (in thousands):

		Contingent Consideration
Balance at December 31, 2011		1,124
Changes in fair value of contingent consideration		(1,086)
Balance at March 31, 2012	$	38

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5. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable, net, by category is as follows (in thousands):

	March 31, 2012	December 31, 2011
Accounts receivable	$ 49,123	$ 54,101
Registration receivable	37,614	14,006
Less: Allowance for doubtful accounts	(1,583)	(1,638)
Accounts receivable, net	$ 85,154	$ 66,469

The Company performs ongoing credit evaluations of its customers financial condition and generally requires no collateral from its customers. Allowances for doubtful accounts are established based on various factors including credit profiles of the Company s customers, contractual terms and conditions, historical payments, returns and discounts experience and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount, and all other balances on a pooled basis based on historical collection experience. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had write-offs of the allowance for doubtful accounts of $0.4 million and $0.3 million during three months ended March 31, 2012 and 2011, respectively.

6. Property and Equipment

Property and equipment by category is as follows (in thousands):

	March 31, 2012	December 31, 2011
Computer and software	$ 67,815	$ 63,947
Furniture and fixtures	9,363	10,586
Leasehold improvements	5,163	3,438
Total	82,341	77,971
Less: Accumulated depreciation	(47,925)	(44,141)
Property and equipment, net	$ 34,416	$ 33,830

Depreciation expense was $3.8 million and $3.4 million for the three months ended March 31, 2012 and 2011, respectively.

Included in fixed assets are $9.5 million of equipment under capital lease at March 31, 2012 and December 31, 2011, respectively. Accumulated amortization of assets under capital lease totaled $6.1 million and $5.5 million at March 31, 2012 and December 31, 2011, respectively.

7. Software Development Costs

Capitalized software development costs are as follows (in thousands):

	March 31, 2012	December 31, 2011
Software development costs	$ 71,464	$ 65,696
Less: Accumulated amortization	(24,648)	(20,603)

Software development costs, net	$	46,816	$	45,093

Amortization expense was $4.0 million and $2.2 million for the three months ended March 31, 2012 and 2011, respectively.

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8. Goodwill

The change in the carrying amount of goodwill for the three months ended March 31, 2012 is as follows (in thousands):

	Technology Services	Marketing Services	Total
Balance at December 31, 2011	$ 230,602	$ 12,718	$ 243,320
Adjustments related to prior year acquisitions	(87)		(87)
Effect of exchange rate changes	564		564
Balance at March 31, 2012	$ 231,079	$ 12,718	$ 243,797

Adjustments to goodwill during the three months ended March 31, 2012 represent contingent consideration and net asset settlement adjustments recorded during the year that related to acquisitions made in the preceding year.

9. Intangible Assets

Intangible assets are amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the assets.

The carrying values of amortized intangible assets are as follows (in thousands):

	March 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intellectual property	$ 29,084	$ (14,296)	$ 14,788	$ 36,609	$ (20,351)	$ 16,258
Non-compete agreements	2,917	(527)	2,390	3,850	(1,085)	2,765
Customer relationships	48,901	(9,914)	38,987	67,891	(26,799)	41,092
Trade names	13,419	(2,778)	10,641	16,568	(5,566)	11,002
Customer contracts	48,188	(31,505)	16,683	52,219	(32,996)	19,223
	$ 142,509	$ (59,020)	$ 83,489	$ 177,137	$ (86,797)	$ 90,340

Amortization of intellectual property is recorded in cost of revenue, while the amortization of other acquired intangible assets is included in operating expenses. The following table summarizes the amortization expense of acquired intangible assets for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2012	2011
Cost of technology revenue	$ 1,348	$ 1,257
Cost of marketing services revenue	117	136
Operating expenses	5,692	3,703
Total	$ 7,157	$ 5,096

10. Accrued Expenses

The following table presents the detail of accrued expenses for the periods presented (in thousands):

	March 31, 2012	December 31, 2011
Accrued compensation	$ 20,949	$ 17,875
Sales and other foreign taxes	5,311	5,006
Accrued penalties	3,294	3,154
Accrued rebates	1,881	1,846
Other	11,340	13,225
Accrued expenses	$ 42,775	$ 41,106

As of March 31, 2012, accrued compensation was comprised of accrued salaries of $11.0 million, accrued personal time off of $3.3 million, accrued self-insurance of $1.1 million, amounts payable for 401K contributions of $0.3 million, deferred bonuses of $4.2 million, and accumulated employee deductions for stock purchase under the Company s Employee Stock Purchase Plan of $1.0 million. As of December 31, 2011, accrued compensation was comprised of accrued salaries of $10.7 million, accrued personal time off of $1.0 million, accrued self-insurance of $0.8 million, amounts payable for 401K contributions of $0.1 million, deferred bonuses of $4.9 million, and accumulated employee deductions for stock purchase under the Company s Employee Stock Purchase Plan of $0.4 million.

11. Long-Term Debt

2011 Credit Agreement

In December 2011, the Company entered into a five-year, senior secured revolving credit facility, with certain institutional lenders, for an initial aggregate principal amount of $50 million (the Credit Facility). The Credit Facility has a maturity date of December 16, 2016, but the outstanding amounts may be prepaid at any time without penalty or premium (except for certain customary break funding payments in connection with LIBOR loans) and is available to fund acquisitions and ongoing operations.

The Credit Facility also includes an accordion feature which allows the Company, subject to certain terms and conditions, to increase the lending commitments by up to $25 million.

Any advance under the Credit Facility will accrue interest at rates per annum that are equal to, based on certain conditions, either (a) 1.5% above the applicable LIBOR rate, or (b) 0.5% above (i) the greatest of (x) the prime rate, (y) the federal funds effective rate plus 0.5% or (z) a daily rate equal to one-month LIBOR plus 1.00%. The unused portion of the Credit Facility will also be subject to an unused fee that will be calculated at a per annum rate of 0.25%. The interest rate under the Credit Facility was 2.08% and 3.75% as of March 31, 2012 and December 31, 2011, respectively.

Under the Credit Facility, the Company is required to comply with certain financial covenants and ratios, including a quarterly consolidated leverage ratio of consolidated funded indebtedness to EBITDA of not more than 2.5 to 1.0 and a quarterly consolidated fixed charge coverage ratio of not less than 1.5 to 1.0. Substantially all of the Company s tangible and intangible assets are considered collateral security under the Secured Credit Facility. As of March 31, 2012 and December 31, 2011, respectively, the Company was in compliance with all specified financial covenants.

The Company had $10.0 million and $5.0 million outstanding, under the Credit Facility at March 31, 2012 and December 31, 2011, respectively. There was $32.2 million and $39.8 million available under the Credit Facility as of March 31, 2012 and December 31, 2011, respectively.

12. Commitments and Contingencies

Operating Leases

The Company leases its office and datacenter facilities under noncancelable leases that expire at various times through 2021. The Company is also responsible for certain real estate taxes, utilities and maintenance costs on its office facilities. Rent expense was approximately $3.4 million and $2.7 million for three months ended March 31, 2012 and 2011, respectively.

Guarantees

The Company enters into arrangements with third-party customers to guarantee performance by the Company. The Company may provide a corporate guarantee, irrevocable letter of credit, surety bond or any other form of guarantee acceptable to the third-party customer. As of March 31, 2012 and December 31, 2011, the Company had guarantees of $16.4 and $14.2 million, respectively.

Sales and Use Tax

The Company accrues for sales and use taxes in certain states. The Company performed an analysis of its potential liability in states where it had not previously remitted these taxes. Based on the results of the analysis, the Company established a reserve for estimated claims from states where sales and use tax had not been remitted of $4.6 million and $4.3 million at March 31, 2012 and December 31, 2011, respectively.

Income Tax Assessment

The Company s Canadian subsidiary received a tax assessment from the Canadian Revenue Agency related to the 2005, 2006 and 2007 tax years with a net cash impact of approximately $0.9 million due to the transfer pricing methodology used related to royalties paid by the Company s Canadian subsidiary to the Company. In addition to the amounts assessed, it is possible that the Company could also be assessed for interest and penalties on the tax assessment. The Company believes that it has a good defense against this matter and does not believe it is more likely than not a loss will be incurred.

Indemnification

The Company enters into indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third-party with respect to its technology. The term of these indemnification agreements is generally perpetual any time after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made. The Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

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The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual.

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. Management considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to its management to determine whether such accruals should be adjusted and whether new accruals are required.

In the normal course of business, the Company may incur penalties from customers related to power outages or other technical disruptions. As a result of this potential exposure, the Company accrued liabilities of $3.3 million and $3.2 million as of March 31, 2012 and December 31, 2011, respectively. Penalties are reflected as a reduction in revenue or as an increase to cost of revenue in the Company s condensed consolidated statements of operations.

In December 2010, the Company became aware of a security breach in one of the legacy computer systems it acquired in an acquisition. This breach could potentially result in an unauthorized acquisition and use of credit card data and could result in assessments or damages from claims asserted by organizers or participants. The Company has performed an internal investigation to assess the potential exposure of the breach and determined it to be insignificant; accordingly, no amounts have been accrued as of March 31, 2012 or December 31, 2011. To date the Company has paid approximately $0.1 million in assessments associated with this breach.

13. Legal Proceedings

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. The actual liability in any such matters may be materially different from the Company s estimates, which could result in the need to adjust the liability and record additional expenses. The Company has not recorded an accrual for any potential losses as of March 31, 2012 or December 31, 2011.

14. Stockholders Equity

Common Stock

Holders of common stock are entitled to dividends if and when declared by the Board of Directors and after obtaining the majority consent of preferred stockholders.

Each share of common stock has the right to one vote per share. Each restricted stock purchase right has the right to one vote per share and the right to receive dividends or other distributions paid or made with respect to common shares, subject to restrictions for continued employment service.

15. Stock Plans and Stock-Based Compensation

Employee Stock Purchase Plan

In April 2011, the Company s stockholders approved the 2011 Employee Stock Purchase Plan (the 2011 ESPP Plan), which became effective upon the Company s initial public offering (IPO) in May 2011. The 2011 ESPP Plan allows participating employees to contribute up to 20% of their earnings, up to a maximum of $25,000 per annum, to purchase shares of the Company s common stock at a price per share equal to the lower of (a) 85% of the fair market value of a share of the Company s common stock on the first date of the offering period, or (b) 85% of the fair market value of a share of the Company s common stock on the date of purchase. The Company s compensation committee may specify offerings with durations of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of the Company s common stock will be purchased for employees participating in the offering. As of March 31, 2012 and December 31, 2011, there were 1,635,857 and 1,071,424 shares of common stock available for issuance under the 2011 ESPP Plan, respectively. As defined by the authoritative guidance for stock-based compensation, the 2011 ESPP Plan is a compensatory plan, and therefore, stock-based compensation expense related to the ESPP Plan is recorded in the Company s condensed consolidated statements of operations.

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Employee Stock Purchase Plan Activity

The Company s first offering period of the 2011 ESPP Plan began in August 2011. The fair value of each purchase option under the 2011 ESPP Plan is estimated at the beginning of each six-month purchase period using the Black-Scholes model with the following weighted-average assumptions:

	Three Months Ended March 31, 2012
Volatility	57.9%
Expected dividend yield	
Risk-free rate	0.1%
Expected term (in years)	0.5

The weighted-average estimated fair value of employee stock purchase plan shares to be issued in conjunction with the offering period occurring during the three months ended March 31, 2012 was $4.83 per share.

As of March 31, 2012, total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the 2011 ESPP Plan was $0.1 million, which is expected to be recognized over a weighted-average period of less than six months.

Stock Incentive Plans

In January 2002, the Company adopted the 2002 Stock Option Plan (the 2002 Plan) and retired the 1999 Stock Option Plan (the 1999 Plan) and assumed certain options under the 1999 Plan. Grants under the 2002 Plan may be incentive stock options or nonqualified stock options. The 2002 Plan is administered by the Company s compensation committee, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. The vesting of these awards vary subject to the participant s period of future service, or otherwise at the discretion of the compensation committee. The majority of awards issued under the 2002 Plan vests over two to four years, and has a term of ten years. Upon the Company s IPO in May 2011, the Company s ability to grant awards under the 2002 Plan was terminated. As of March 31, 2012 and December 31, 2011, options to purchase 9,399,271 shares and 11,201,208 shares of common stock were outstanding under the 2002 Plan, respectively. The 2002 Plan will continue to govern the terms and conditions of the outstanding equity awards granted under the 2002 Plan.

In April 2011, the Company s stockholders approved the 2011 Equity Incentive Plan (the 2011 Plan), which became effective upon the Company s IPO. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock purchase rights, restricted stock bonuses, restricted stock units (RSUs), performance shares, performance restricted stock units (PRSUs), cash-based awards and other stock-based awards. The 2011 Plan is administered by the Company s compensation committee, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms and conditions of the awards. Stock options expire on terms as determined by the compensation committee, but not more than ten years after the date of grant. The majority of awards issued under the 2011 Plan vests over one to four years. Incentive stock options may be granted only to employees (including officers and directors who are employees). Nonqualified stock options, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance units, cash-based awards and other stock-based awards may be granted to employees and consultants. The maximum number of shares of common stock issuable pursuant to the 2011 Plan is 6,945,244, plus the shares of common stock subject to options or awards outstanding pursuant to the 2002 Plan that expire, terminate, cancel, or are forfeited or are repurchased after the adoption of the 2011 Plan. As of March 31, 2012 and December 31, 2011, there were 4,881,123 shares and 3,298,733 shares available for grant under the 2011 Plan, respectively. As of March 31, 2012 and December 31, 2011, options to purchase 874,460 shares and 403,600 shares of common stock were outstanding under the 2002 Plan, respectively.

Early Exercise of Stock Options

The Company issued 50,408 shares of common stock during the three months ended March 31, 2011 for stock options exercised prior to vesting. The unvested shares are subject to the Company s repurchase right at the lesser of the original exercise price or market price. The proceeds from the early exercise of stock options are recorded in other long-term liabilities and reclassified to common stock as the shares vest and the Company s repurchase rights lapse. No shares of common stock were issued for stock options exercised prior to vesting during the three months ended March 31, 2012.

There were 356,613 and 415,017 shares held by employees which were subject to repurchase for early exercise of stock options at an aggregate purchase price of $0.7 million and $0.8 million at March 31, 2012 and December 31, 2011, respectively.

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Stock Option Activity

Stock option activity for the three months ended March 31, 2012 is as follows (in thousands, except share, per share and term data):

Stock Options	Number of Shares Underlying Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	11,604,808	$ 3.71	6.74	$ 115,144
Granted	498,360	16.25		
Exercised	(1,724,194)	2.16		
Cancelled or expired	(105,243)	7.11		
Outstanding at March 31, 2012	10,273,731	$ 4.54	6.81	$ 126,301
Options exercisable at March 31, 2012	9,409,252	$ 3.55	6.54	$ 124,925
Options vested and expected to vest at March 31, 2012	9,843,280	$ 4.38	6.70	$ 122,609

The aggregate intrinsic value represents the difference between the quoted closing market price of the Company s common stock and the exercise price of outstanding, in-the-money options. The Company s fair value of its common stock was $16.83 and $13.78 as of March 31, 2012 and 2011, respectively. The total intrinsic value of options exercised was approximately $23.0 million and $2.7 million for the three months ended March 31, 2012 and 2011, respectively.

The weighted-average grant date fair value of options granted was $7.32 and $3.73 for the three months ended March 31, 2012 and 2011, respectively.

Total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options was approximately $18.3 million as of March 31, 2012 and is expected to be recognized over a weighted-average period of 3.0 years.

Valuation of Stock Option Awards

The following table presents the weighted-average assumptions used to estimate the fair value of stock options granted in the periods presented:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Volatility	51.8-52.7%	48.8-49.2%
Expected dividend yield		
Risk-free rate	0.8-1.1%	1.8-2.2%
Expected term (in years)	5.0	4.8

Restricted Stock Activity

A summary of restricted stock activity during the three months ended March 31, 2012, is presented as follows:

Restricted Stock	Number of Shares	Weighted-Average Remaining

		Contractual Term
Nonvested at December 31, 2011	663,127	3.74
Granted (RSUs)	779,561	
Granted (PRSUs)	67,099	
Vested		
Forfeited		
Nonvested at March 31, 2012	1,509,787	2.04

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Restricted stock unit awards granted vest annually over a one to four-year period following the date of grant, subject to the participant s continued service through the applicable vesting dates. The number of shares subject to PRSUs granted represents the aggregate target awards for such PRSUs. The number of shares ultimately issued will be determined based on the Company s performance and individual performance related to revenue and operational targets. The shares, if any, will be issued following the end of the applicable performance period.

The Company measures the fair value of restricted awards at the closing stock price of the Company s common stock on the date of grant, and the fair value is recognized as expense over the requisite service period. The per unit weighted-average grant date fair value of RSUs granted was $17.04 for the three months ended March 31, 2012. The per unit weighted-average grant date fair value of PRSUs granted was $15.75 for the three months ended March 31, 2012. No RSUs or PRSUs were granted during the three months ended March 31, 2011.

At March 31, 2012, remaining unrecognized compensation cost related to restricted stock was $23.0 million and is expected to be recognized over a weighted-average period of 3.3 years.

Stock-Based Compensation Expense

The following table presents the effects of stock-based compensation related to stock-based awards to employees on the Company s condensed consolidated statements of operations during the periods presented (in thousands):

	Three Months Ended March 31,	
	2012	2011
Cost of revenue	$ 60	$ 16
Sales and marketing	696	187
Research and development	452	118
General and administrative	1,821	423
Total stock-based compensation	$ 3,029	$ 744

The components of stock-based compensation expense were as follows (in thousands):

	Three Months Ended March 31,	
	2012	2011
Stock options	$ 2,168	$ 685
Restricted stock	655	59
PRSUs	36	
ESPP	170	
Total stock-based compensation	$ 3,029	$ 744

16. Net Loss Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Prior to the IPO, holders of Redeemable Convertible Preferred shares were each entitled to receive 8% per annum cumulative dividends, payable prior and in preference to any dividends on any other shares of the Company s capital stock.

Under the two-class method, basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period.

The following tables present the calculation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share data):

	Three Months Ended March 31, 2012	2011
Net loss per share:		
Net loss	$ (20,338)	$ (10,942)
Less: accretion of redeemable convertible preferred stock		(7,410)
Net loss attributable to common stockholders	$ (20,338)	$ (18,352)
Weighted-average common shares outstanding:		
Basic and diluted	56,982	8,514
Net loss per share attributable to common stockholders:		
Basic and diluted	$ (0.36)	$ (2.16)

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Potentially dilutive securities not included in the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented is as follows:

	Three Months Ended March 31, 2012	2011
Options to purchase common stock and common stock subject to repurchase	11,168,550	12,490,502
Restricted stock	697,012	51,758
Employee stock purchase plan shares	72,966	
Convertible Preferred		8,807,090
Redeemable Convertible Preferred		25,824,801
Common stock warrants	634	247,711
Common stock issuable upon conversion of debt		287,601
	11,939,162	47,709,463

17. Segment Information

The Company s Chief Executive Officer who is considered to be the chief operating decision maker (CODM) reviews financial information presented on a consolidated basis, accompanied by information about operating segments for purposes of making operating decisions and assessing financial performance. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance.

The Company determined its operating segments to be technology, which derives substantially all of its revenue from the sale of direct selling services through a hosted software solution, and marketing services, which derives substantially all of its revenue from the delivery of advertising and content media.

The Company evaluates the performance of its operating segments based on net revenues and operating income before interest, taxes, depreciation, amortization and stock-based compensation expense.

The Company does not allocate most of its assets, depreciation and amortization expense, stock-based compensation expense, interest income, interest expense or income tax expense by segment. Accordingly, the Company does not report such information.

Summarized information by segment was as follows (in thousands):

	Three Months Ended March 31, 2012	2011
Net revenue by segment:		
Technology	$ 84,120	$ 63,108
Marketing services	10,318	9,604
Total net revenue	$ 94,438	$ 72,712

	Three Months Ended March 31, 2012	2011
Segment operating income before depreciation, amortization, stock-based compensation expense and unallocated corporate costs:		
Technology	$ 6,052	$ 9,321
Marketing services	2,309	3,133

Total segment operating income before depreciation, amortization, stock-based compensation expense and unallocated corporate costs	8,361	12,454
Depreciation and amortization	(14,976)	(10,671)
Stock-based compensation expense	(3,029)	(744)
Unallocated corporate costs	(11,358)	(9,884)
Loss from operations	$ (21,002)	$ (8,845)

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The Company allocates its net revenue to geographic regions based on the customer s location. The following tables set forth net revenue and long-lived assets by geographic region (in thousands):

	Three Months Ended March 31, 2012	2011
Net revenue:		
North America	$ 91,222	$ 70,611
Europe and other	3,216	2,101
Total net revenue	$ 94,438	$ 72,712

	March 31, 2012	December 31, 2011
Assets:		
North America	$ 599,064	$ 596,039
Europe and other	3,463	3,188
Total assets	$ 602,527	$ 599,227
Long-lived assets:		
North America	$ 409,123	$ 413,461
Europe and other	1,366	1,255
Total long-lived assets	$ 410,489	$ 414,716

18. Income Taxes

The effective tax rate of (3.1)% for the three months ended March 31, 2012 differs from the statutory rate primarily due to state taxes, foreign taxes, nondeductible stock option expenses, the increase in the deferred tax liability from the amortization of tax deductible goodwill, and the change in the valuation allowance.

The Company reduces the deferred tax asset resulting from future tax benefits by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of these deferred taxes will not be realized. The timing of the reversal of deferred tax liabilities associated with tax deductible goodwill is not certain and thus not available to assure the realization of deferred tax assets. Similarly, state deferred tax liabilities in excess of state deferred tax assets are not available to ensure the realization of federal deferred tax assets. After consideration of these limitations associated with deferred tax liabilities, the Company has deferred tax assets in excess of deferred tax liabilities for the periods presented. As the Company has no history of generating book income, the ultimate future realization of these excess deferred tax assets is not more likely than not and thus subject to a valuation allowance. Accordingly, the Company has established a valuation allowance against its domestic deferred tax assets. A valuation allowance has not been recorded against the Company s foreign deferred tax assets as there are sufficient future taxable temporary differences in foreign jurisdictions to assure the realization of foreign deferred tax assets.

In June 2006, the FASB issued guidance regarding uncertainty in income taxes. The Company adopted this interpretation effective January 1, 2008. Pursuant to the guidance, income tax positions must meet a more likely than not recognition threshold in order to be recognized. Tax benefits are then measured using a cumulative benefit approach whereby the largest amount of tax benefit that is greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority is recorded. In accordance with this guidance, the Company recorded a liability of $0.3 million for uncertain tax positions. Such amount is unchanged at March 31, 2012 and December 31, 2011. The entire balance of unrecognized tax benefits at March 31, 2012 and December 31, 2011 would affect the Company s effective tax rate if recognized. The Company does not expect any material changes in the balance of unrecognized tax benefits during the next twelve months.

The Company s policy for recording interest and penalties on uncertain tax positions is to record such items as a component of income tax expense. Accrued interest and penalties of $0.2 million were recorded at March 31, 2012 and December 31, 2011, respectively.

The Company conducts business globally, and as a result, is subject to taxation in the United States and various state jurisdictions and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in many of the jurisdictions in which the Company operates. Effectively, all of the Company s historical tax filings are subject to examination by the Internal Revenue Service and various state and foreign jurisdictions due to the generation of net operating loss carryforwards.

Certain of the Company s subsidiaries are currently under tax audit. It is possible that within the next twelve months, ongoing tax examinations in the U.S and in foreign jurisdictions may be resolved, that new tax exams may commence and that other issues may be effectively settled. However, the Company is unable to make a reasonably reliable estimate as to when or if cash settlements with taxing authorities may occur. Although audit outcomes and the timing of audit payments are subject to uncertainty, the Company does not anticipate that the resolution of these tax matters or any events related thereto will result in a material adverse change to its consolidated financial position, results of operations or cash flows (Note 12).

19. Related Party Transactions

ESPN Online Investments, Inc. (ESPN) is a significant common stockholder in the Company. The Company also sells its services to ESPN and its affiliates. The Company recorded revenues from ESPN and its affiliates of less than $0.1 million and $1.1 million for the three months ended March 31, 2012 and 2011, respectively.

ESPN is a wholly-owned subsidiary of The Walt Disney Company (Disney). The Company entered into an online registration services agreement with Disney to provide online advertising. The Company recorded revenues from Disney of $0.2 million and $0.5 million for the three months ended March 31, 2012 and 2011, respectively.

In August 2006, the Company entered into a Master Services Agreement and certain other related agreements with the United States Tennis Association (USTA) as amended in December 2010. A member of the Company s Board of Directors is the managing director for recreational tennis at the USTA. Pursuant to the terms of these agreements, the USTA purchases certain software services from the Company. Net revenue from the USTA and its affiliates was approximately $1.4 million for the three months ended March 31, 2012 and 2011, respectively.

20. Employee Benefit Plans

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code (401(k) Plan) covering all full-time employees who meet certain eligibility requirements. Eligible employees may defer up to 4% of their pre-tax compensation, up to the annual maximum allowed by the Internal Revenue Service. Under the 401(k) Plan, the Company may, but is not obligated to, match a portion of the employee contributions up to a defined maximum. The Company made matching contributions of $0.3 million and $0.2 million for the three months ended March 31, 2012 and 2011, respectively.

21. Subsequent Events

StarCite Acquisition

The Company s registration statement filed to register the contingently issuable shares of common stock as purchase price consideration in connection with the StarCite acquisition became effective on April 11, 2012 (Note 3). Since the Company s stock price traded at or above $15.00 per share on the New York Stock Exchange for three consecutive days, pursuant to the agreement and plan of merger, the shares of common stock are not required to be issued to the previous shareholders of StarCite.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the Securities and Exchange Commission (SEC).

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, will, plan, project, seek, should, target, will, would, and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in Part II Item 1A. Risk Factors below, and those discussed in our other public filings with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are leaders in activity and participant management providing cloud computing applications serving a wide range of customer groups including business solutions, community activities, outdoors and sports. We provide applications that form an online network connecting a fragmented and diverse group of activity and event organizers with a large base of potential participants. Our proprietary technology platform transforms the way organizers manage their activities and events by automating online registrations and streamlining other critical management functions, while also driving consumer participation to their events.

We power a broad range of activities, such as reserving a campsite or tee time, signing up for a marathon or sports league, purchasing a fishing or hunting license, or participating in a community event or corporate conference. From the introduction of our platform in 1999, we have experienced significant growth and in 2011, we had over 51,000 customer organizations that drove over 80 million annual consumer registrations. Based on the results of a 2010 online survey we commissioned through Survey.com, we believe the organizations we target produce or organize activities and events for the majority of U.S. households. Our proprietary technology platform, ActiveWorks, provides cloud computing applications that reduce the cost and complexity of managing, organizing and promoting these activities and events.

Our business benefits from a powerful network effect. As more organizations use our platform, we increase the breadth and depth of activities and events offered through our platform. This more comprehensive offering of activities attracts more participants. As we attract more participants, we are able to drive increased demand for our customers activities, thus increasing registrations and revenue for both organizers and us. This revenue growth enables us to develop enhanced functionality and services through ActiveWorks and our websites, further increasing participant engagement and attracting new organizers. In this way, we build increasing value for both organizations and participants.

We serve a wide range of customers including community and sports organizations, large corporations, small and medium-sized businesses, educational institutions, federal and state government agencies, non-profit organizations and other similar entities. We primarily generate revenue from technology fees paid by participants who register for our customers activities through our cloud computing applications. During the three months ended March 31, 2012, we generated revenue of $94.4 million, as compared to $72.7 million in the three months ended March 31, 2011, an increase of 30%.

A large number of our customers are currently being served by our ActiveWorks architecture at varying levels of integration. We are in the process of transitioning to ActiveWorks certain customers who continue to use both our internally developed systems and acquired legacy systems. In addition, as part of our growth strategy, we expect to continue to make acquisitions and, thereby, acquire additional legacy systems. We will evaluate these systems to determine, based on their sophistication and compatibility, whether to integrate them into ActiveWorks or to migrate the customers using these systems to ActiveWorks. This process is time consuming and requires the investment of significant technical and human resources. During this process, we expect to continue to incur costs associated with maintaining multiple legacy systems.

In addition, our long-term strategic plan involves expanding our applications into new business areas within the activity and event registration and management market. A lack of market acceptance of such efforts or our inability to generate satisfactory revenue to offset the development costs could have a material adverse effect on our results of operations and future growth prospects. As we establish and expand our operational capabilities internationally, we will incur additional operating expenses and capital-related costs.

Our technology revenue was 89% of our total revenue for the three months ended March 31, 2012. Net registration revenue was 76% of our technology revenue for the three months ended March 31, 2012. During the three months ended March 31, 2012, we processed approximately 18.2 million consumer registrations. Licensed software, maintenance, hosting and implementation revenue was 24% of our technology revenue for the three months ended March 31, 2012. Our marketing services revenue was 11% of our total revenue for the three months ended March 31, 2012.

Key Business Metrics

Net Registration Revenue. We calculate our net registration revenue by summing the technology fees generated by our registrations in a given period.

Registrations. We define a registration as when a participant registers one or more people for an event being held by an organization who is using our technology to register that participant. We determine that a registration has taken place when a participant registers one or more people for an activity or an event being held by one of our customers.

	Three Months Ended March 31,		
	2012	2011	% Change
	(Unaudited)		
	(In thousands)		
Net registration revenue	$ 63,519	$ 51,433	23%
Registrations	18,223	14,859	23%
Net registration revenue per registration	$ 3.49	$ 3.46	1%

Registrations increased 3.4 million or 23% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was primarily due to higher registrations in our outdoors customer group driven by growth from both existing and new state customers, higher registrations in our business solutions customer group due in part to additional registrations from StarCite, a provider of a technology platform that delivers content and services for meetings and event planning, which we acquired in December 2011, and increased registrations in our community activities customer group from sales to new organizations. The average revenue per registration increased 1% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011.

Basis of Presentation

General

The condensed consolidated financial statements include the accounts of The Active Network, Inc. and its wholly-owned subsidiaries. All intercompany balances have been eliminated.

Acquisitions that have been accounted for as purchase transactions are included in the condensed consolidated results from their date of purchase.

Revenue

We report our revenue in two segments:

Technology

Marketing services

The technology revenue segment is primarily composed of net registration revenue, which is made up of the technology fee we charge a participant when they register for one of our organization s events. Our technology revenue is generally derived from transactions where we are the merchant of record. Our merchant model provides consumers the ability to book a wide range of events online through our platform. The type of events we offer on our platform can be categorized into the following four primary groups: sports, community activities, outdoors and business solutions. We generate technology revenue for our services based on the technology fee we charge a consumer when they register for one of the events. Consumers generally pay us the registration fee at the time of booking, and we pay the event organizer at a later date. The technology fee is recognized as revenue net of the organization registration fee which is collected directly from our consumer and then we make payment to the event organizer typically on a two week basis. Net registration revenue is recognized when services are provided, net of estimated refunds and other chargebacks. The timing difference between when the cash is collected from our consumers and when payments are made to the event organizers improves our operating cash flow and represents a source of liquidity for us. Technology revenue also includes software licensing, installation, training, maintenance and hosting subscriptions.

The marketing services revenue segment includes online services, field marketing services and membership programs. Registrations lead participants to our network of websites and create opportunities for us to sell our online commerce and other marketing services to participants. Our network of websites enables like-minded consumers to engage in our online communities.

Costs and Expenses

Cost of Revenue. Our cost of revenue consists of credit card processing fees for registrations, payroll and related costs including allocated facilities costs, stock-based compensation for employees associated with registration, subscription or software implementation, customer support and onsite event support including travel costs. Costs also include expenses related to our call center operations, amortization of capitalized software development costs and certain acquired intangibles including acquired technology, customer supply costs, inventory costs and internet hosting costs.

Sales and Marketing. Our sales and marketing costs are primarily salaries, benefits, incentive compensation, stock-based compensation and allocated facilities costs for our sales and marketing employees. Costs also include expenses for travel, trade shows and other promotional and marketing activities including direct and online marketing.

Research and Development. Our research and development costs are primarily salaries, benefits, incentive compensation, stock-based compensation and allocated facilities costs for employees and contractors engaged in the development and ongoing maintenance of our products and services.

General and Administrative. Our general and administrative costs are primarily salaries, benefits, incentive compensation, stock-based compensation and allocated facilities costs for employees engaged in support activities including executive, finance, accounting, human resources, legal and internal information technology support. Also included are professional fees and contractor costs for legal and accounting services. Software expenses and travel costs for support employees, taxes, fees and licenses are also included.

Amortization of Intangibles. Intangible assets with finite lives are amortized using a combination of straight-line and accelerated methods based on the expected cash flows from the asset over their estimated useful lives. This includes assets recorded in conjunction with certain acquisitions.

Other Income (Expense), Net. Other income (expense), net consists primarily of the interest income earned on our cash and cash equivalents, interest paid on our debt, foreign exchange gains and losses and other one-time gains and losses.

Provision (benefit) for Income Taxes. Provision for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions.

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed within this Quarterly Report on Form 10-Q Adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Additionally, Adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the payment of bonuses to our executive officers. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures for capital equipment, internally developed software costs or certain other contractual commitments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may need to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation to our management team or employees;

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- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and

- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP financial results.

The following table presents a reconciliation of Adjusted EBITDA for each of the three month periods ended March 31, 2012 and March 31, 2011:

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Reconciliation of Adjusted EBITDA to Net Loss:		
Net loss	$ (20,338)	$ (10,942)
Interest expense, net	126	1,254
Provision for income taxes	611	792
Depreciation and amortization	14,976	10,671
Stock-based compensation	3,029	744
Other expense (income), net	(1,401)	51
Adjusted EBITDA	$ (2,997)	$ 2,570

Critical Accounting Policies

In presenting our condensed consolidated financial statements in conformity with U.S. generally accepting accounting principles, or GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures.

Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. On an ongoing basis, we reconsider and evaluate our estimates and assumptions. Our future estimates may change if the underlying assumptions change. Actual results may differ significantly from these estimates.

We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our condensed consolidated financial statements.

- Revenue recognition

- Allowance for doubtful accounts

- Software development costs

- Business combinations

- Impairment of goodwill, indefinite-lived intangible assets and long-lived assets

Income taxes

Stock-based compensation

As of March 31, 2012, there have been no material changes to the items disclosed as critical accounting policies and estimates in Management Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011.

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Results of Operations

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In thousands)	
Net revenue:		
Technology revenue	$ 84,120	$ 63,108
Marketing services revenue	10,318	9,604
Total net revenue	94,438	72,712
Cost of net revenue:		
Cost of technology revenue	45,655	32,988
Cost of marketing services revenue	1,316	1,162
Total cost of net revenue	46,971	34,150
Gross profit	47,467	38,562
Operating expenses:		
Sales and marketing	25,024	16,940
Research and development	21,209	16,176
General and administrative	16,544	10,588
Amortization of intangibles	5,692	3,703
Total operating expenses	68,469	47,407
Loss from operations	(21,002)	(8,845)
Interest income	25	30
Interest expense	(151)	(1,284)
Other income (expense), net	1,401	(51)
Loss before provision for income taxes	(19,727)	(10,150)
Provision for income taxes	611	792
Net loss	(20,338)	(10,942)
Accretion of redeemable convertible preferred stock		(7,410)
Net loss attributable to common stockholders	$ (20,338)	$ (18,352)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(As of percentage of net revenue)	
Net revenue	100%	100%
Cost of net revenue	50	47
Gross profit	50	53
Operating expenses:		
Sales and marketing	26	23

Research and development	22	22
General and administrative	18	15
Amortization of intangibles	6	5
Total operating expenses	73	65
Loss from operations	(22)	(12)
Interest income		
Interest expense		(2)
Other income (expense), net	1	
Loss before provision for income taxes	(21)	(14)
Provision for income taxes	1	1
Net loss	(22)%	(15%)

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Three Months March 31, 2012 and 2011

Net Revenue

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	% Change
	(In thousands)		
Net revenue:			
Technology revenue	$ 84,120	$ 63,108	33%
Marketing services revenue	10,318	9,604	7%
Net revenue	$ 94,438	$ 72,712	30%

Total revenue increased $21.7 million, or 30%, for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 as discussed below.

Technology revenue. Net registration revenue increased $12.1 million or 23% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was driven by an increase in our business solutions customer group largely as a result of the StarCite acquisition, new large state customers in our outdoors customer group, and growth in our community activities customer group. Software revenue increased $8.9 million or 76% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011, as a result of higher software revenue in our community activities customer group related to our faith offerings and an increase in software revenue in our business solutions customer group largely as a result of the StarCite acquisition, as well as increased hosting and implementation revenue in our business solutions customer group. In total, technology revenue increased $21.0 million or 33% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011.

Marketing services revenue. Revenue increased $0.7 million, or 7% for the three months ended March 31, 2012, resulting mainly from higher revenue related to website development, growth in membership programs and our daily deals program, offset by a decline in online advertising revenue mainly resulting from the expiration of a large one-time online advertising contract in 2011.

Costs and Expenses

Employee related expenses. Headcount and its related expenses make up a significant portion of our total expenses. We define employee related expenses as salaries, fringe benefits, facilities costs, employee travel, commissions, bonuses, stock-based compensation and other employee expenses.

Cost of Net Revenue

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	% Change
	(Dollars in thousands)		
Cost of net revenue	$ 46,971	$ 34,150	38%
Headcount (at period end)	1,595	1,267	26%

Cost of net revenue increased $12.8 million or 38% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. Employee related costs increased $5.9 million as a result of a 26% increase in headcount as we added call center, information technology and implementation support employees to support our revenue growth. Amortization of software that was capitalized in earlier periods, depreciation for fixed assets and amortization expense increased $2.4 million. Other cost of goods sold including credit card processing fees, network and website hosting, software expense and hardware maintenance costs increased $4.3 million or 28% to support our revenue growth, data centers and infrastructure growth for new products.

Sales and Marketing

	Three Months Ended March 31, 2012	2011	% Change
	(Dollars in thousands)		
Sales and marketing	$ 25,024	$ 16,940	48%
Headcount (at period end)	608	478	27%

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Sales and marketing expense increased $8.1 million or 48% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was primarily due to a $7.1 million increase in employee related expenses, primarily due to a 27% increase in headcount as we invested in our sales and marketing staff for future business growth. Marketing expenses also increased $0.5 million mainly due to increased trade show spending, and expenses for contractors increased $0.4 million.

Research and Development

	Three Months Ended March 31,		%
	2012	2011	Change
	(Dollars in thousands)		
Research and development	$ 21,209	$ 16,176	31%
Headcount (at period end)	1,045	869	20%

Research and development expense increased $5.0 million or 31% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was primarily due to a $5.7 million increase in employee related costs resulting from a 20% increase in headcount driven by our continued development of ActiveWorks and implementations for new customers. The increase in employee related costs was offset by additional capitalized software of $0.7 million.

General and Administrative

	Three Months Ended March 31,		%
	2012	2011	Change
	(Dollars in thousands)		
General and administrative	$ 16,544	$ 10,588	56%
Headcount (at period end)	310	257	21%

General and administrative expense increased $6.0 million or 56% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. Employee related expenses increased $4.8 million due to higher salaries and benefits costs resulting from a 21% increase in headcount to allow us to support the business, as well as higher stock-based compensation expense due to increases in the fair value of our common stock and the number of stock options and restricted stock units granted. Contractor expenses also increased $0.8 million to support our public company and acquisition requirements.

Amortization of Intangibles

	Three Months Ended March 31,		%
	2012	2011	Change
	(In thousands)		
Amortization of intangibles	$ 5,692	$ 3,703	54%

Amortization of intangibles increased $2.0 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The increase was due to $3.0 million of additional amortization expense related to recent acquisitions, offset by a $1.0 million decline in amortization expense for acquisitions completed prior to 2009 as useful lives on certain intangibles were met.

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Interest and Other Income (Expense), Net

	Three Months Ended March 31,		
	2012	2011	% Change
	(In thousands)		
Interest income	$ 25	$ 30	(17)%
Interest expense	(151)	(1,284)	(88)%
Other income (expense), net	1,401	(51)	2,847%
Interest and other income (expense), net	$ 1,275	$ (1,305)	198%

Interest income decreased less than $0.1 million or 17% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011, as a result of our transition to bank Earnings Credit Rate, which offsets bank fees with interest income resulting in lower interest income.

Interest expense decreased $1.1 million or 88% to $0.2 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 due to a lower average debt balance. Our average debt balance was lower in 2012 because, subsequent to our public offering in May 2011, we paid all of our outstanding debt at that time in full. The remaining interest expense is related to the $10.0 million outstanding under our Credit Facility as of March 31, 2012, as well as capital lease obligations.

Other income (expense), net increased to $1.4 million for the three months ended March 31, 2012, mainly as a result of a gain resulting from the change in the fair value of contingent consideration related to an acquisition, and gains or losses on foreign exchange.

Income Taxes

	Three Months Ended March 31,		
	2012	2011	% Change
	(In thousands)		
Provision for income taxes	$ 611	$ 792	(23)%

Income tax expense decreased $0.2 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The provision for each period is primarily the result of increases in our deferred tax liabilities from the amortization of tax deductible goodwill.

The effective tax rate of (3.1)% for the three months ended March 31, 2012 differs from the statutory rate primarily due to state taxes, foreign taxes, nondeductible stock option expenses, the increase in the deferred tax liability from the amortization of tax deductible goodwill, and the change in the valuation allowance.

Liquidity and Capital Resources

Condensed Consolidated Statements of Cash Flows Data:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Purchases of property and equipment	$ (5,849)	$ (3,076)
Software development costs	(5,285)	(4,570)
Depreciation and amortization	14,976	10,671
Change in operating assets and liabilities, net	31,127	(37,548)

Borrowing (repayment) of long-term obligations	5,000	(3,364)
Net cash provided by operating activities	28,475	39,259
Net cash used in investing activities	(49,171)	(7,126)
Net cash provided by (used in) financing activities	7,161	(2,858)

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As of March 31, 2012, we had cash and cash equivalents of $95.0 million and restricted cash of $1.5 million. We did not have any short-term or long-term investments. Cash and cash equivalents consist of cash and non-interest bearing accounts. Restricted cash consists of cash restricted from withdrawal and held by banks as collateral for letters of credit.

We believe that our existing cash and cash equivalents together with cash flows from our operating activities and cash available under our credit facility will be sufficient to fund our operations for at least the next 12 months.

On December 16, 2011, we entered into a Credit Agreement (the Credit Agreement) with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Book Manager, and the lenders from time to time a party thereto. The Credit Agreement provides for a five-year, senior secured revolving credit facility in an initial aggregate principal amount of $50.0 million. The credit facility includes a $15.0 million sublimit for the issuance of standby letters of credit and a $5.0 million sublimit for swing line loans, which will be available on a same-day basis. As of March 31, 2012, we had $10.0 million outstanding under the swing line loan facility.

Operating Activities

For the three months ended March 31, 2012, cash provided by operating activities was $28.5 million, taking into account a net loss of $20.3 million, plus $15.0 million in depreciation and amortization expense, $3.0 million in stock-based compensation, $0.6 million change in deferred tax liability, $0.2 million in other items, and $31.1 million net increase from the change in operating assets and liabilities, offset by $1.1 million resulting from a gain on contingent consideration. Net change in operating assets and liabilities included a $37.8 million increase in registration fees payable resulting from an increase in registrations, an $11.3 million increase in deferred revenue resulting from growth in the business, and a $3.1 million increase in accrued expenses offset by an $18.6 million decrease in accounts receivable, resulting from increased registrations and growth in the business, and $2.5 million from a net decrease in other items.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2012 was $49.2 million, resulting primarily from $5.8 million cash used for capital expenditures and $5.3 million for capitalized software development costs, and $38.1 million related to the payable for the cash consideration for the acquisition of StarCite.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2012 was $7.2 million, resulting primarily from $5.0 million in debt proceeds from borrowings under our credit facility and $3.7 million cash received from the exercise of stock options, offset by $1.6 million for payments on capital lease obligations.

Off Balance Sheet Arrangements

As of March 31, 2012, we did not have any off balance sheet arrangements.

Contractual Obligations

Our contractual obligations relate primarily to borrowings under our credit facility, operating leases and purchase obligations. As of March 31, 2012, there have been no significant changes to our contractual obligations from the information provided in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate fluctuations, foreign exchange risk and inflation.

Interest Rate Fluctuations

Our investments include cash and cash equivalents, which consists of cash and money market accounts. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest rates.

On December 16, 2011, we entered into a new Credit Facility that bears interest at floating rates based upon either (a) 1.5% above the applicable LIBOR rate, or (b) 0.5% above (i) the greatest of (x) the prime rate, (y) the federal funds effective rate plus 0.5% or (z) a daily rate equal to one-month LIBOR plus 1.00%. Our exposure to market risk for changes in interest rates relates primarily to the floating interest rate. Accordingly, interest rate increases would increase our interest expense on outstanding Credit Facility balances. As of March 31, 2012, $10.0 million was drawn under the Credit Facility. Based on a sensitivity analysis, an increase of 1% in the floating interest rate would increase our borrowing costs by less than $0.1 million for each $1.0 million of borrowings under the Credit Facility, assuming such borrowings were outstanding for the entire quarter, or a maximum of $0.2 million if we utilized our entire line of credit.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally the Canadian dollar and the British pound sterling. We do not believe movements in the foreign currencies in which we transact will significantly affect future net earnings. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 1% adverse change in foreign exchange rates. We believe such a change would not have a material impact on our results of operations.

Inflation

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, the design of a control system must reflect that there are resource constraints, thus, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the probability of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted. These matters arise in the ordinary course and conduct of our business, and, at times, as a result of our acquisitions. They include, for example, commercial, intellectual property and employment matters. Some are expected to be covered, at least partly, by insurance. We intend to continue to defend ourselves vigorously in such matters. We regularly assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on our assessment, we currently have accrued an immaterial amount in our financial statements for contingent liabilities associated with these legal actions and claims. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed our current accruals, and it is possible that our cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all other information contained in this Quarterly Report on Form 10-Q, including our consolidated financial statements and the related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition and results of operations could be materially harmed. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

Risks Related To Our Business

We have a history of significant net losses, and we may not be able to achieve or maintain consistent profitability on an annual basis.

We have incurred fiscal year net losses since our inception in 1998. Our net losses were approximately $20.3 for the three months ended March 31, 2012, $15.3 million for the year ended December 31, 2011, $27.3 million for the year ended December 31, 2010 and $37.9 million for the year ended December 31, 2009. At March 31, 2012, we had an accumulated deficit of approximately $295.6 million. We plan to increase our operating expenses in the future as we continue to develop additional functionality and features for our applications, continue to transition our customers to ActiveWorks, make additional acquisitions, increase our sales and marketing activities, expand outside of North America and enhance our customer service and call center capabilities. If our revenue grows at a slower rate than we anticipate, or if our operating expenses increase unexpectedly, we may not be able to achieve or maintain consistent profitability.

Our limited operating history, new and unproven business model and rapidly evolving market make it difficult to evaluate our future prospects and increase the risk that we will not be successful.

We launched our application services in 1999, and we have made a number of changes to our operations, technology platform and online communities since that time. As a result, we have a limited operating history with our current business upon which to predict our future operating results. In addition, the business of providing cloud computing applications to activity and event organizers and building and supporting online communities for activity and event participants is relatively new and subject to rapid change. You must consider our business and prospects in light of the risks and difficulties we will continue to encounter as a company with a new and unproven business model and operating in a new and rapidly evolving market. These risks and difficulties include our ability to, among other things:

- attract new customers;
- deepen our relationships with our existing customers;

continue to transition our existing customers to ActiveWorks;

continue to earn the trust of organizers and participants with respect to the processing, storage and use of their confidential information and personal data in compliance with our own high standards of care and applicable governmental and other legal obligations related to privacy and data protection;

develop a scalable, high performance technology infrastructure that can securely, efficiently and reliably handle increased usage globally;

continue to manage and successfully integrate acquired businesses, applications and technologies;

successfully compete with other companies that engage in the activity and event registration and management market;

continue to build and support online communities and applications for activity and event participants;

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- successfully introduce and deploy new features and functionality for our technology platform;
- increase revenue from our applications, websites and online communities;
- avoid interruptions or disruptions in our service;
- avoid problems with the functionality of our applications;
- continue to hire, integrate and retain highly skilled team members who embrace our values and culture; and
- successfully expand our business outside of North America.

We may not be able to address these risks and difficulties or others that we may encounter, including those described elsewhere in this risk factors section. Our failure to adequately address risks and difficulties as we encounter them could cause our reputation to suffer and harm our business. We base our current and future expense levels on our management s estimates of the size of our market and the number of potential customers and registrations, operating forecasts and estimates of future revenue. However, our revenue and operating results are difficult to forecast due to the uncertainty of our market and our ability to increase our customer base and the number of participants who elect to register for activities using our applications. In addition, certain of our expenses are fixed, and we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in revenue. As a result, we may make errors in predicting our revenue and expenses, which would harm our business and financial condition.

Our growth rate over the past few years may not be sustainable. If we fail to maintain an adequate growth rate, our business will be adversely affected and we may not achieve or maintain profitability.

Our revenue has grown rapidly over the past few years, increasing to $337.4 million in 2011 from $279.6 million in 2010 and $242.9 million in 2009, representing a compound annual growth rate over this period of 17.9%. We may not be able to sustain this level of growth in future periods, and you should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. Further, a portion of our revenue growth in 2011 resulted from acquisitions. We may not complete acquisitions in the future that increase our revenue at the same rate as in prior periods. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete the acquisitions we do identify. If we are unable to maintain an adequate rate of growth, our business will be adversely affected and we may not achieve or maintain profitability.

If we fail to effectively manage our growth, our business and operating results could be harmed.

The substantial growth in our business over the past few years has placed, and may continue to place, significant demands on our management, our operating infrastructure and our internal controls and procedures. As our operations grow in size and complexity, we will need to improve and upgrade our operating systems and infrastructure to offer an increasing number of organizers and participants enhanced applications, features, functionality and support. In addition, we will be required to strengthen our internal controls and our risk management policies and procedures. The expansion of our operating systems and infrastructure and the strengthening of our controls, policies and procedures will require us to commit substantial financial, operational and technical resources in advance of an increase in the volume of our business, with no assurance that our business will actually increase. Continued growth could also strain our ability to maintain reliable service levels for organizers and participants, as well as to recruit, train and retain highly skilled personnel. If we fail to effectively manage our growth, our business and operating results could be harmed.

Acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value, strain our resources and impair our operating results, financial conditions and prospects.

Acquisitions have been an important part of our growth to date. We have completed a significant number of acquisitions over the past few years. We intend to continue to seek to acquire and invest in businesses, applications and technologies that we believe could complement or expand our business, augment our market coverage, enhance our technology platform, provide us with valuable customer contacts or otherwise offer growth opportunities.

Acquisitions and investments involve numerous risks and difficulties, including:

- difficulties in integrating operations, technologies, accounting functions and personnel;
- difficulties in supporting and transitioning customers of our acquired companies to our technology platform;
- difficulties in maintaining the security and reliability of acquired applications;
- delays in strengthening internal controls and risk management policies and procedures;
- diversion of financial and management resources from existing operations;
- potential loss of key employees;
- inability to generate sufficient revenue to offset acquisition or investment costs;

- assumption of unknown liabilities and claims;
- potential disputes and litigation;
- potential diminishment in the value of any acquired brands; and
- potential write-offs of acquired assets.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted. Such dilution could adversely affect the market price of our stock. Moreover, if we are unable to identify suitable future acquisition candidates, reach agreement with these parties or obtain the financing needed to complete such acquisitions, we could lose market share to competitors who are able to complete such acquisitions. This loss of market share could negatively impact our business, revenue and future growth. If we fail to achieve the anticipated benefits of any acquisitions we have completed or may complete in the future, our business, operating results, financial condition and prospects may be impaired.

Any failure to compete successfully against current or future competitors would materially adversely affect our business and prospects.

The market for technology applications for activity and event organizers is fragmented, competitive and rapidly evolving. Our primary competition comes from traditional registration processing methods used by activity and event organizers, such as paper-based registrations submitted by mail or in person or reservations submitted by telephone. We also face competition from:

- custom-developed applications created by an organizer s technical staff or an outside custom service provider;
- companies that offer generalized functional software that have features and functionality that organizers can use to register participants and manage their activities, such as content or contact management software programs, e-commerce solutions, enterprise resource planning software and other products having separate software modules; and
- companies that offer organizers integrated hosted software solutions in one or more verticals within the activities and events market.

Our competitors may announce new products, services or enhancements that better address changing industry standards or the needs of organizers and participants. In addition, competitors and potential competitors may enter into business combinations or alliances that strengthen their competitive positions. For example, companies who we do not consider to be significant competitors could acquire one or more of the various companies in our fragmented industry and, over a short period of time, become a significant competitor in the markets we service. If any of these competitors were to aggressively price their competing services in our market, we may be required to reduce our prices, which could adversely affect our operating results and financial condition. In addition, it may be difficult to displace a competitor once they have established a relationship with an organizer.

We expect to encounter new and evolving competition as the market becomes aware of the advantages of cloud computing applications for activity and event organizers. For example, social networking companies with a large number of online users could develop competing applications or partner with third parties to do so. Future or existing competitors may introduce different pricing models, and offer users applications at minimal or no cost. In addition, larger, better capitalized companies with greater operational, strategic, financial, personnel, customer or user bases and other resources than we have could also enter our market and attempt to compete with us. If we do not successfully compete with existing and future competitors, our business and prospects will be adversely affected.

Our business may be harmed if we fail to successfully transition certain of our existing customers to ActiveWorks.

We have made a significant investment in developing ActiveWorks, and a large number of our customers are currently being served by our ActiveWorks architecture at varying levels of integration. We are in the process of transitioning to ActiveWorks certain customers who continue to use both our internally developed systems and acquired legacy systems. We are developing the additional features required to complete this transition. In addition, as part of our growth strategy, we expect to continue to inherit legacy systems. We will evaluate these systems to determine, based on their sophistication and compatibility, whether to integrate them into ActiveWorks or to migrate the customers using them to ActiveWorks. This process is time consuming and requires the investment of significant technical and human resources. During this process, we will continue to incur the costs and face the risks and difficulties associated with maintaining multiple legacy systems. During that transition period, we may also experience service interruptions, system failures and security breaches due to the shortcomings of certain of the legacy systems. Further, as we transition legacy systems to ActiveWorks, we may discontinue certain brands associated with those legacy systems and we may encounter resistance from customers who have affinity for these brands. If we fail to complete the transition to ActiveWorks in a cost-effective and timely manner and without service interruptions, system failures, security breaches or resistance from customers, our business may be harmed.

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If our computer systems are compromised, we could be subject to fines, damages, litigation and enforcement actions and organizers and participants could curtail or cease using our applications, the occurrence of which would harm our business.

Our computer systems involve the storage and transmission of non-public personal and credit card information provided by our customers and participants. Despite our security measures, our computer systems are vulnerable to computer viruses, break-ins and other attacks that could lead to the unauthorized access, disclosure and use of non-public personal information, including credit card data. The techniques used by criminal elements to attack our computer systems are sophisticated, change frequently and may originate from less regulated and remote areas of the world. As a result, we may not be able to address these techniques proactively or implement adequate preventative measures. In one instance, we became aware of a security breach in one of the legacy computer systems we inherited through one of our acquisitions. This type of breach could potentially result in the unauthorized acquisition and use of credit card data of a number of participants. We promptly isolated the affected computer system, conducted a forensic analysis of this breach, took steps to clean the affected computer system and implemented a remediation plan to prevent any further breach. We cooperated with the federal authorities investigating the criminals who perpetrated the attack. We cannot guarantee that we will be able to prevent a breach of our computer systems in the future. The breach of our computer systems may subject us to fines, damages from claims asserted by payment processors, merchant banks, organizers and participants, litigation and enforcement actions. In addition, if we experience further compromises of our computer systems, payment processors, merchant banks, organizers and participants may lose confidence and cease using our applications, which would harm our business.

We are subject to data privacy laws and regulations as well as contractual privacy obligations, and our failure to comply could subject us to fines and damages and would harm our reputation and business.

We are subject to the data privacy laws and regulations adopted by federal, state and foreign governmental agencies. Data privacy is highly regulated, and may become the subject of additional regulation in the future. Privacy laws restrict our storage, use, processing, disclosure, transfer and protection of non-public personal information, including credit card data, provided to us by our customers and participants. In addition, we are subject to the privacy-related obligations in our contracts with our customers and other third parties (including voluntary third-party certification bodies such as TRUSTe). Any failure by us to comply with applicable privacy laws or regulations, our contractual privacy obligations or our own privacy policies, may result in fines, statutory or contractual damages or litigation or governmental enforcement actions. Additionally, violations of our legal or contractual privacy obligations could cause organizers and participants to lose trust in us, which would harm our reputation and business.

Our technology systems are vulnerable to damage, interruptions or failures, any of which could harm our reputation and business.

Our technology systems rely on computer hardware and communications systems located either in our facilities or at third-party facilities, including our main web-hosting facilities in Las Vegas, Nevada, Ashburn, Virginia and Toronto, Ontario. We do not control the operation of the third-party facilities and must rely on third parties to provide the physical security, facilities management and communications infrastructure services to ensure the reliable and consistent delivery of our solutions to our customers. Our web-hosting technology systems located at our facilities and at third-party facilities are vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, floods, fires, power loss, telecommunications failures, terrorist attacks and similar unforeseen events. Despite any precautions we may take, the occurrence of a natural disaster or other unexpected problems at one of our facilities or the facilities operated by third parties who house our equipment could result in lengthy interruptions in our services.

We are in the process of implementing procedures designed to allow us to move our production operations over to a backup datacenter in the event of a catastrophe. Although this program is functional, it does not provide a real-time failover in all instances, so if one of our websites shuts down it would remain shut down for a period of time while the transition takes place, and during that time, the website would not be accessible. In addition, the prolonged interruption of service of one or more of our websites that process transactions could result in potentially significant losses.

We carry business interruption insurance but our coverage may not be sufficient to compensate us for the potentially significant losses that may result from prolonged interruptions in our services as a result of system failures.

If credit card payment processors and service providers fail or no longer agree to provide their services, change their services or terms of service or increase processing fees, our customer relationships could be adversely affected and we could lose business and revenue.

We rely on agreements with large payment processing organizations to enable us to provide credit card authorization, data capture, settlement and merchant accounting services, and access to various reporting tools for the customers we serve. Our credit card processors and service providers could terminate their arrangements with us or fail to perform their services efficiently, or change the services or terms of service provided to us, each of which would adversely affect our relationships with customers and could cause customers to discontinue using our applications. In addition, we cannot guarantee that credit card companies will not increase the transaction fees we incur for each registration we process. If credit card payment processors and service providers fail or no longer agree to provide their services or increase processing fees, our customer relationships could be adversely affected and we could lose business and revenue.

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We are subject to the rules and regulations adopted by the card networks, such as Visa, MasterCard and American Express, and if we fail to adhere to their rules and regulations, we would be in breach of our contractual obligations to payment processors and merchant banks, which could subject us to damages and liability and could eventually prevent us from processing or accepting credit cards.

The card networks, such as Visa, MasterCard and American Express, have adopted rules and regulations that apply to all merchants who process and accept credit cards for payment of goods and services. We are obligated to comply with these rules and regulations as part of the contracts we enter into with payment processors and merchant banks. The rules and regulations adopted by the card networks include the Payment Card Industry Data Security Standards, or the PCI DSS. Under the PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of card data to help prevent credit card fraud. We assess our compliance with the PCI DSS on a periodic basis, and make necessary improvements to our internal controls. If we fail to comply with the rules and regulations adopted by the card networks, including the PCI DSS, we would be in breach our contractual obligations to payment processors and merchant banks. Such failure to comply may subject us to fines, penalties, damages and civil liability, and could eventually prevent us from processing or accepting credit cards. Further, there is no guarantee that even if we comply with the rules and regulations adopted by the card networks, we will be able to maintain our compliance. We also cannot guarantee that such compliance will prevent illegal or improper use of our payments systems or the theft, loss or misuse of the credit card data of customers or participants. Any such event would harm our reputation and business.

We face potential liability for the fraudulent activities of organizers and their employees, participants and our employees.

We have potential liability for losses caused by the fraudulent activities of our organizers or their employees. An organizer, or one of an organizer s employees, could use a stolen or counterfeit credit card or credit card number to record a false sales transaction, or intentionally fail to deliver merchandise, events, activities or services sold in an otherwise valid transaction. We may also face potential liability for credit card fraud by participants who register for an activity or complete a transaction through our applications. A participant could use a stolen credit card or a stolen credit card number in a credit card-not-present transaction, to register for an activity or event or purchase merchandise or services. In a traditional credit card-present transaction, if the merchant uses the credit card, receives authorization for the transaction from the credit card issuing bank and verifies the signature on the back of the credit card against the paper receipt signed by the individual using the credit card, the credit card issuing bank remains liable for any loss. In a fraudulent credit card-not-present transaction, we could be liable to the credit card issuing bank for any loss arising from the transaction, even if we receive authorization for the transaction from the same credit card issuing bank. In addition, we face potential fraud if our employees misappropriate or disclose to others who misappropriate the credit card or other sensitive information of organizers or participants. We have implemented systems and procedures designed to detect and reduce the impact of organizer, participant and employee fraud, but we cannot guarantee that these measures are or will be effective. It is possible that incidents of fraud could increase in the future, and they may remain undetected for extended periods of time if our systems and procedures are not effective. Significant or recurring credit card fraud could adversely affect our business, financial condition and operating results.

We may face significant chargeback liability if our customers refuse or cannot reimburse chargebacks resolved in favor of participants who register through our applications.

We may have potential liability for chargebacks associated with the transactions we process for certain of our organizer customers. If a billing dispute relating to a transaction is not ultimately resolved in favor of the organizer, the disputed transaction is charged back to our bank and credited to the credit card account of the participant. If we or our processing banks are unable to collect the chargeback from the organizer s account, or if the organizer refuses or is financially unable to reimburse us for the chargeback amount, we bear the risk of loss for the amount of the refund paid to the participant s credit card account. We have in the past experienced chargebacks related to cancelled and fraudulent events and transactions. Significant or recurring chargeback amounts could adversely affect our business, operating results and financial condition.

Our business is subject to a variety of U.S. and foreign laws, many of which are unsettled and still developing, and which could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the United States and abroad that are continuously evolving and developing, and that are costly to comply with, can require significant management time and effort and can subject us to claims or other remedies. Existing and future laws and regulations may be adopted, interpreted or implemented in a manner that is inconsistent with our current business practices or that require changes to such practices, our privacy policy, the features and functionality of our applications or the design of our websites. These regulations and laws may cover taxation, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, broadband residential Internet access and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet. If we are not able to comply with these laws and regulations or if we become liable under them, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this

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liability. This may require us to expend substantial resources or to discontinue certain practices, which could negatively affect our business, financial condition and results of operations. In addition, the increased attention focused on liability as a result of lawsuits and legislative proposals could harm our reputation or otherwise harm our business.

Our quarterly operating results are volatile, subject to seasonal fluctuations and difficult to predict, all of which may adversely affect our stock price.

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. For example, we generally experience seasonality due to the greater number of activities and events during the spring and summer months in North America. Other factors that may contribute to the variability of our quarterly and annual results include:

- our ability to accurately forecast revenue and appropriately plan our operating expenses;
- our ability to attract new, and increase the engagement and penetration of our existing, activity and event organizers;
- our ability to increase the number of participants who register for the activities and events offered by our customers using our applications;
- our ability to control the cost and time required to transition certain customers to ActiveWorks;
- our ability to maintain and effectively manage an adequate rate of growth;
- our ability to successfully enter new markets and manage our planned global expansion;
- our ability to successfully manage and integrate our past and any future acquisitions of businesses, applications or technologies;
- our ability to limit interruptions in service and prevent the compromise of customer or participant data;
- the effects of natural or man-made catastrophic events;
- changes in the laws, regulations and legal standards affecting our business;
- our ability to keep pace with changes in technology and the offerings by our competitors;
- our ability to provide a high-quality participant experience through our applications and online communities;
- our ability to design and implement effective internal controls and processes;

- our ability to attract and retain qualified employees and key personnel;
- our ability to protect our intellectual property, including our technology platform and our key brands;
- our ability to control the costs associated with defending intellectual property infringement and other claims by third parties; and
- the impact of worldwide economic conditions, including the resulting effect on consumer spending.

As a result, we believe that quarterly comparisons of our operating results are not necessarily meaningful and that you should not rely on the results of one quarter as an indication of our future performance. In addition, our operating results may continue to vary significantly from one quarter to the next as part of our normal business cycle, which may adversely affect our stock price.

If we do not continue to enhance and improve our existing applications and successfully introduce new applications, our ability to maintain the pricing of our applications and to attract and retain organizer customers will be harmed.

In the past we have grown our business in part through improving the functionality and features of our existing applications and introducing new applications to our customers, such as fundraising, real-time event tracking and merchandising for activities and events. If we fail to continue to offer new applications that increase the number of participants who register online for our customers activities and events, and improve the ability of our customers to manage their activities and events, we may be unable to maintain the pricing of our applications. We cannot assure you that we will be able to timely and adequately develop additional functions and features or introduce new applications to satisfy the demands of our customers. Further, developing new technologies and applications entails significant technical and business risks. We cannot assure you that any new functions, features or applications will achieve the level of acceptance required for us to generate sufficient revenue to offset our development costs. If we do not continue to enhance and improve the functions and features of our existing applications and successfully introduce new applications, our ability to maintain the pricing of our applications and to attract and retain organizer customers will be harmed.

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Activity and event organizers may not widely adopt our applications to manage the important aspects of their activities and events, which would limit our ability to grow our business.

Our ability to grow our business and increase revenue depends on our success in educating activity and event organizers about the potential benefits of our cloud computing applications. Cloud computing applications for organizing and managing important aspects of activities and events are relatively new, and have not been widely adopted by activity and event organizers. Concerns about cost, fraud, privacy, security, reliability and other issues may cause activity and event organizers not to adopt our applications. Moreover, activity and event organizers who have already invested substantial resources in other registration and management systems or methods may be reluctant to adopt a new approach like ours to supplement or replace existing systems or methods. If activity and event organizers do not widely adopt applications such as ours, our ability to grow our business will be limited.

If we fail to expand our customers use of our applications, our ability to execute our growth strategy and increase our revenue will be limited.

Many of our organizer customers initially make a purchase of only one or a limited number of our available applications or use our applications for only one or a limited number of their activities or events. Our ability to grow our business and increase revenue is dependent on our ability to further penetrate our existing customers by selling additional applications to them, and by increasing the number of activities and events for which they deploy our applications. If we fail to expand the usage of our applications by our existing customers, our ability to execute our growth strategy and increase our revenue will be limited.

Many individuals are using devices other than personal computers to access the Internet. If users of these devices do not widely adopt solutions we develop for these devices, our business could be adversely affected.

The number of people who access the Internet through devices other than personal computers, including mobile telephones, personal digital assistants, smart phones and handheld tablets or computers, has increased dramatically in the past few years and is projected to continue to increase. If we are unable to develop mobile solutions to meet the needs of our users, our business could suffer. Additionally, as new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our solutions for use on these alternative devices, and we may need to devote significant resources to the creation, support, and maintenance of such devices.

If we are unable to increase the percentage of participants who register through our websites, our ability to grow our business will be impaired.

In addition to expanding and increasing penetration within our organizer customer base, the growth of our business depends on our ability to increase the percentage of participants who elect to register for activities and events through our websites. Our ability to increase the percentage of participants who register through our websites depends on our ability to make our online registration and reservation processes simple, efficient, secure and cost-effective, as well as on our ability to develop applications, such as our online communities, activity and event information and searchable database of events, that encourage participants to use our websites. Our ability to increase participant use of our websites also depends on the ability and willingness of our organizer customers to increase the awareness of our websites to their participants. We cannot control the level of effort that organizers expend or the extent to which any of them will be successful in increasing awareness of our websites among their participants. We may not be able to prevent organizers from devoting greater resources to support other registration methods developed by them or other third parties. If we are unable to increase the percentage of participants who register for activities and events through our websites, our ability to grow our business will be impaired.

We may not be successful in expanding into new business areas within the activity and event registration and management market, which could harm our business and future prospects.

Our long-term strategic plan involves expanding our applications into new business areas within the activity and event registration and management market. We cannot assure you that our efforts to expand our business in this manner will succeed. We also cannot assure you that we will develop any new applications required to successfully compete in these new business areas in a cost-effective or timely manner. The lack of market acceptance of such efforts or our inability to generate satisfactory revenue to offset the development costs could harm our business and limit our future prospects.

The sales cycle for certain of our applications can be long, and we may not recognize revenue until completion of the entire sale, which makes it difficult for us to forecast our operating results.

It can take us between three and nine months to complete a sale to an activity or event organizer, and at times it may take up to one year or longer. The period between our initial contact with a potential customer and the completion of a sale may be relatively long due to several factors, including:

- many activities and events occur only annually;
- our need to educate potential customers about the uses, benefits, safety and reliability of our applications;
- activity and event organizers have budget cycles which can affect the timing of purchases; and
- some organizers, such as park and recreation department administrators, have lengthy internal approval processes before having the required authority to purchase our applications.

In addition, our customers may demand customization of the applications we provide them. As a result, these sales opportunities may require us to devote greater sales and technical resources, increasing the cost and time required to complete sales. As a result, it is difficult to predict when particular sales will occur or be completed, which adversely impacts our ability to accurately forecast our operating results.

Negative factors affecting the activities and events market have an adverse effect on our business and revenue.

We primarily generate revenue from the registration and reservation fees paid by the participants in the activities and events offered by our organizer customers. As a result, our business is directly affected by factors affecting the activities and events market, including global, national or local consumer trends, adverse weather, security concerns or environmental disasters. Our performance is also subject to economic conditions and their impact on levels of consumer spending, which may remain depressed, or be subject to further deterioration, for the foreseeable future. Some of the factors that have had and may continue to have an adverse impact on discretionary consumer spending include general economic conditions, unemployment, consumer debt, reductions in net worth, disruptions in the residential real estate or mortgage markets, higher taxation, energy prices or interest rates and decreases in consumer confidence and other macroeconomic factors. Because spending for activities is generally considered to be discretionary, declines in consumer spending may have a more negative effect on our business than on those businesses that sell products or services considered to be necessities. Unfavorable changes in the above factors or in other business and economic conditions affecting our activity and event customers and their participants could cause organizers to cancel activities, result in fewer participants using our applications to register for activities, lower our profit margins, cause our activity and event customers to terminate their relationship with us or default on their payment obligations to us, any of which would have a material adverse effect on our financial condition and operating results.

If our customers do not renew their agreements for our applications, our business and operating results will suffer.

We currently generate a majority of our revenue from customers who have entered into contracts with us with terms ranging from three to seven years. However, we have a number of customers with contract terms under three years. Our customers are not obligated to renew their contracts with us. Even if our customers perceive our applications to be of value, budgetary, economic or other competitive pressures may prevent some customers from renewing their contracts. If we are not successful in continuing to renew or extend the terms of our contracts with our existing customers, our business and operating results will suffer.

Our ability to grow our business will be impaired if we do not provide high quality customer support in a timely and cost-effective manner.

Our ability to maintain and increase our customer base and the number of participants who use our applications depends significantly on our ability to provide high quality levels of service and support. Complaints or negative publicity about our service or support could severely diminish confidence in or use of our applications. We spend significant time and resources to hire, train and retain our service and support personnel. In addition, we are required to hire temporary employees each year to provide customer service and support during peak registration seasons. These temporary employees require training and education and take time to reach full productivity. If we are not successful in timely hiring, training and retaining our service and support personnel or otherwise fail to provide high quality service and support to organizers and participants, our ability to grow our business will be impaired.

Our ability to improve our operating margins may be limited by the requirements imposed by our government agency customers.

We acquired the state hunting and fishing business of Automated License Systems and Central Trust Bank in October 2008 and the campground registration business of ReserveAmerica in January 2009. As of March 31, 2012, we operated registration services for fishing and hunting licenses in 25 states or provinces in North America, and provided registration and management services for campgrounds located in 32 states or provinces in North America. Our government agency customers often require us to customize our applications and provide additional services to their participants to qualify for these contracts. For example, we are typically required to maintain call centers for these customers to allow participants to register telephonically and receive telephonic customer service and support. We continue to focus on ways to encourage participants to use the self-service features available through our websites, however, each year we are required to hire temporary employees and independent contractors to staff our call centers during peak registration periods. A number of our state customers require us to maintain a physical call center located in their particular state. Additionally, our state customers typically require us to provide third-party audits of our operations. These additional requirements are costly to comply with and add to the complexity of our business. If we are unable to properly manage and control the cost of the additional services required by our government agency customers, our operating margins will suffer and our business and results would be harmed.

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We may be unsuccessful in expanding our operations outside of North America, which could negatively impact our growth strategy, revenue and future growth.

Our headquarters are located in the United States. To date, we have operated primarily in North America. Expansion outside of North America is an important aspect of our future growth strategy. Our ability to expand outside of North America involves various risks and difficulties, including:

- incurring significant expenses in advance of generating material revenue as we attempt to establish our presence in international markets;
- operating in unfamiliar competitive environments;
- distraction of management and company resources;
- different participant preferences and participation patterns than those in North America;
- varied, unfamiliar and unclear legal and regulatory requirements and restrictions;
- potentially greater susceptibility to fraud and security breaches;
- pricing controls, legal, political or systemic restrictions on the ability of U.S. companies to compete with foreign competitors or otherwise do business in foreign countries;
- less extensive adoption of the Internet as a commerce medium or information source and increased restrictions on privacy or the use of customer and participant data;
- lack of infrastructure to adequately conduct electronic commerce transactions and data storage and management;
- difficulties in staffing and managing foreign operations;
- greater difficulty in accounts receivable collection;
- currency fluctuations or other restrictions on foreign currency; and
- potential adverse tax consequences.

As a result of these obstacles, we may find it difficult to expand outside of North America or we may be unsuccessful in our attempt to do so, which would negatively impact our growth strategy, revenue and future growth.

We may not timely and effectively scale and adapt our existing technology and network infrastructure to ensure that our websites are accessible with little or no perceptible load times.

A key element in our continued growth is the ability of organizers and participants to access our websites at all times with little or no perceptible load times. This has become increasingly difficult to achieve as our applications have become more complex and our user traffic has increased. Strains on the capacity of our technology infrastructure caused by growth in the numbers of organizers and participants accessing our websites, new applications and features and overall engagement on our websites, especially at the opening of the registration period for a popular activity, have in the past resulted, and may in the future result in, slower load times or system failures. We have experienced website disruptions, outages and other performance problems due to a variety of factors, including maintaining multiple legacy systems, infrastructure changes, power failure, telecommunication outages, human or software errors and capacity constraints caused by overwhelming numbers of users accessing our websites simultaneously. If our websites are not available when users attempt to access them or do not function as expected, our customers may select another option to organize and manage their activities and events and participants may select alternative means of researching and registering for activities and events, each of which would negatively impact our business.

We expect to continue to make significant investments to upgrade our technology and network infrastructure to handle increased usage and to enable the timely and effective release of new applications. These upgrades and expansions are complex and in the past have resulted, and in the future could result, in website outages or inefficiencies or operational failures. To the extent that we do not effectively address infrastructure challenges, upgrade our systems as needed and continually develop our technology and network architecture, our business and operating results may be harmed.

If Internet search engines methodologies are modified or our search result page rankings decline for other reasons, participant engagement in our websites and online communities could decline.

We depend in part on various Internet search engines to direct a significant amount of traffic to our websites. Our ability to maintain the number of potential participants directed to our websites is not entirely within our control. Our competitors search engine optimization, or SEO, efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in an attempt to improve search results, which could adversely affect placement of our search result page rankings. If search engine companies revise their search algorithms in ways that are detrimental to new participant growth on our websites or in ways that make it more difficult for organizers or participants to use our websites, or if competitors SEO efforts are more successful than ours, the overall growth in the numbers of organizers and participants using our websites could slow, participant engagement could decrease, and we could lose existing participants and become less attractive to existing and prospective organizer customers. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of participants directed to our website would harm our business and operating results.

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Our ability to establish, maintain and strengthen our brands in the activities and events market is critical to our growth strategy.

Promoting and maintaining our brands is critical to our efforts to attract and retain our organizer customers and to increase the number of participants who use our applications. We also believe brand recognition is critical to allow us to effectively compete against the growing number of Internet sites and relatively low initial barriers to entry in certain of our markets. If we are unable to establish and maintain our brands, including THE ACTIVE NETWORK, ACTIVE, ACTIVE.COM, ACTIVENET, ACTIVEWORKS, REGONLINE, RESERVEAMERICA and STARCITE, as leaders for online registration and management applications in the activities and events market, our business and prospects would be materially and adversely affected.

We may experience difficulty in developing marketing services that are attractive to advertisers and promoters.

The market for marketing services such as ours is relatively new and rapidly evolving. We cannot be certain this market will continue to grow. Our marketing services customers may determine that it is in their best interest to spend their marketing budgets through other forms of promotional or advertising activities. As a result, if we fail to develop compelling marketing services for advertisers and promoters, our ability to sustain and grow our marketing services business would be adversely affected.

If we fail to maintain and grow our user base of participants and the data we gain access to from such participants, potential advertisers may not utilize our marketing services, which may result in reduced revenue.

We use a wide range of data to expand, refine and target our marketing services on behalf of our customers. We gain access to most of this data from participants as they opt-in to receive special offers and other direct marketing opportunities from our marketing services customers and us and the registration process for activities and events using our application services. If we are unable to maintain and grow our user base of participants and the data we gain access to from such participants, potential advertisers may not utilize our marketing services and we may lose significant marketing services revenue.

We might not be able to attract and retain employees, which could impede our ability to grow and successfully generate our business.

Any failure to attract and retain qualified, experienced employees could adversely affect our ability to grow our business. To execute our continuing growth plans, we need to increase the size and maintain the quality of our staff of direct sales and business development representatives and technology development staff. To be successful, we must attract and retain highly qualified sales and other personnel with specialized skill sets focused on the activities and events industry. Competition for qualified and experienced sales and other personnel can be intense, and we might not be successful in attracting and retaining such individuals. We have from time to time experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining a sufficient number of highly skilled employees with appropriate qualifications for our business.

Our business and prospects could be harmed if we lose members of our senior management team.

Our performance is substantially dependent on the continued services and on the performance of our senior management and other key personnel, particularly David Alberga, our Chairman of the Board and Chief Executive Officer, Matthew Landa, our President and Director, Scott Mendel, our Chief Financial Officer and Darko Dejanovic, our Chief Technology, Product and Innovation Officer. Our performance also depends on our ability to retain and motivate other officers and key employees. We do not have long-term employment agreements with the members of our senior management or other key personnel. In addition, we do not maintain key-man insurance on these individuals. The loss of the services of any member of our senior management or other key employee for any reason would harm our business.

If we cannot maintain our corporate culture as we grow and evolve, we could lose the innovation, creativity and teamwork that this culture has fostered.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, creativity and teamwork. Maintaining this corporate culture will become increasingly difficult as we grow and implement the more complex organizational management structures necessary to support our growth and to comply with the requirements imposed on public companies. Failure to maintain and further develop our culture could negatively impact our future success. In addition, our initial public offering may have created disparities in wealth among our employees, which could adversely impact relations among employees and our corporate culture in general.

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If the protection of our technology platform, domain name, trademarks and other proprietary rights is inadequate, our business would be harmed.

Our commercial success is dependent in part on obtaining, maintaining and enforcing our intellectual property rights. We rely on a combination of trade secret, trademark, copyright, trade dress, domain name and patent laws in the United States and in the other jurisdictions in which we operate, together with confidentiality agreements and technical measures, to protect our intellectual property. We pursue the registration of our trademarks, service marks and domain names in the United States. Our registered trademarks in the United States include THE ACTIVE NETWORK, ACTIVE, ACTIVE.COM, ACTIVENET, ACTIVEWORKS, REGONLINE, RESERVEAMERICA and STARCITE. As of March 31, 2012, we have been granted five patents by the United States Patent and Trademark Office and have six patent applications pending in the United States. Our issued patents begin to expire in February 2019. We rely more heavily on trade secret protection than patents to protect our proprietary technology. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. In addition, due to the relatively high cost associated with registering all of our copyrights, we generally rely on common-law copyright laws to protect these rights.

The steps we have taken and take in the future to protect our proprietary rights may be inadequate. For example, confidentiality agreements with our employees, licenses, independent contractors and other advisors may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, third parties may independently discover trade secrets and proprietary information, and in such cases, we may not be able to successfully assert trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. If we are unable to obtain, maintain and enforce intellectual property protection covering our technology platform, brands and domain names, others may be able to make, use or sell products that are substantially similar to ours without incurring the sizeable development costs that we have incurred, which would adversely affect our ability to compete.

In addition, the domain names for the websites that we maintain are important to our business. The regulation of domain names in the United States and in foreign countries is unclear and subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we cannot assure you that we will be able to acquire or maintain relevant domain names. The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is also unclear. As a result, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our domain names, and trademarks and other proprietary rights. Any such inability could have a material adverse effect on our business, results of operations, financial condition and prospects.

Intellectual property claims against us could be costly and could hurt our business, operating results, financial condition and prospects.

We cannot predict whether third parties will assert claims of infringement or other intellectual property claims against us. If we are forced to defend against third party claims, whether they are with or without merit or are determined in our favor, we could face expensive and time consuming litigation, which could distract our technical and management personnel. In the past, we received a notice from a third party alleging that our Internet fundraising program and related website operations infringe patents published by such third party. In the future, we may receive other notices from, or have lawsuits filed against us by, third parties alleging infringement. If an infringement claim is determined against us, we may be required, or deem it advisable, to develop non-infringing intellectual property or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party successfully asserts an infringement claim against us and we are required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar intellectual property on reasonable terms and on a timely basis, it could significantly harm our business. In addition, third parties may seek to invalidate our intellectual property.

As a result of becoming a public company, we will be obligated to develop and maintain proper and effective internal controls over financial reporting. We may not complete our analysis of our internal controls over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We will be required, pursuant to Section 404 of the Sarbanes-Oxley Act (Section 404) to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. Our first report on compliance with Section 404 is expected to be in connection with our financial statements for the fiscal year ending December 31, 2012. The controls and other procedures are designed to ensure that information required to be disclosed by us in the reports that we file with the Securities and Exchange Commission or SEC, is disclosed accurately and is recorded, processed, summarized and reported with the time periods specified in SEC rules and forms. We are in the middle of the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404. Although as of March 31, 2012, we have no material weaknesses in our internal controls, we have undertaken significant measures to improve the effectiveness of our internal controls in response to material weaknesses we have had in the past which have been remediated. These measures include strengthening our internal staffing and technical expertise in financial accounting and SEC reporting and developing robust review processes and procedures. We plan to continue to assess our internal controls and procedures and intend to take further action as necessary or appropriate to address any other matters we or our independent auditors identify. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal controls in the future. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

Our reserves for state sales taxes may not be sufficient.

Certain states in which we operate impose sales, purchase and use taxes on transactions completed through our applications. At this time, many of our systems do not automatically capture the sales, purchase and use taxes we are required to remit to these states.

As a result, we are required to analyze our transactions, and reserve an appropriate amount for the payment of state sales, purchase and use taxes. We regularly review the procedures we use to calculate our sales tax obligations as well as our sales tax reserves, and make adjustments when appropriate. Although we believe that our sales tax reserves are adequate, we may not be fully reserved and it is possible that we may be obligated to pay amounts in excess of our reserves.

We may not be able to realize the tax benefits associated with the net operating losses we have recorded to date.

As of December 31, 2011, we had federal tax net operating loss carry forwards of approximately $146.6 million which will begin to expire between 2019 and 2031 and state tax net operating loss carry forwards of approximately $105.6 million which begin to expire between 2012 and 2031. If we do not maintain sufficient profitability prior to the expiration of these net operating loss carry forwards, then we will not be able to fully use such tax attributes to our benefit. Additional limitations on the annual use of these net operating loss carry forwards may also apply due to subsequent issuances of our stock.

Covenants in our Credit Agreement may restrict our operations, and if we do not effectively manage our business to comply with these covenants, our financial condition and liquidity could be adversely affected.

In December 2011, we entered into a Credit Agreement (the Credit Agreement) with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Book Manager, and the lenders from time to time a party thereto. We must comply with various covenants under our Credit Agreement that limit our ability to, among other things:

- incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;
- pay cash dividends or distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans and investments;
- enter into agreements that restrict distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- enter into certain transactions with affiliates; and

consolidate or merge with or into, or sell substantially all of our assets to, another person.

In addition, under our Credit Agreement, we are required to maintain specified financial ratios. Our ability to meet these financial covenants can be affected by events beyond our control, and we may be unable to meet these tests. In addition, our failure to maintain effective internal controls to measure compliance with these financial covenants could affect our ability to take corrective actions on a timely basis, and could result in us being in breach of this covenant. Our Credit Agreement provides that our breach or failure to satisfy certain covenants constitute an event of default. Upon the occurrence of an event of default, the lenders could elect to terminate any commitment under our Credit Agreement and declare all amounts outstanding to be immediately due and payable. If we are unable to repay those amounts, our financial condition could be adversely affected. In addition, termination of our Credit Agreement could also adversely impact our liquidity.

Our cash, cash equivalents and short-term investments are subject to a risk of loss based upon the solvency of the financial institutions in which they are maintained.

We maintain the majority of our cash and cash equivalents in accounts with major financial institutions within the United States, in the form of demand deposits and money market accounts. Our deposits in these institutions may generally exceed the amounts of insurance provided, or deposits may not at all be covered by insurance. If any of these institutions become insolvent, it could substantially harm our financial condition and we may lose some, or all, of such deposits.

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Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly change our reported or expected financial results.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to, revenue recognition, allowances for doubtful accounts, software development costs, stock-based compensation, business combinations, impairment of goodwill, intangible assets and long-lived assets, and accounting for income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.

We are currently in the process of transitioning certain of our customers who are using the legacy systems we inherited in our acquisitions to ActiveWorks. Until we complete this transition, we may not be able to compare our key business metrics on a period-to-period basis in a manner consistent with the rest of our business, and as a result, our ability to manage our business could be adversely affected.

We manage our business based in part on key business metrics regarding the total number of customer organizations we serve and the total number of registrations we process during a specific financial period. We are currently in the process of transitioning our customers who are currently using the legacy systems we inherited in our acquisitions to ActiveWorks. Until we complete this transition, participants for certain activities and events will continue registering through these legacy systems. Certain of these legacy systems do not track customers and registrations in a manner consistent with the rest of our business. As a result, we need to use manual processes to accumulate these metrics, which could lead to errors. If we are unable to accurately compare our key business metrics on a period-to-period basis, our ability to manage our business could be adversely affected.

If the estimates and assumptions we use to determine the size of our target market, customer groups or the verticals within customer groups are inaccurate, our future growth rate may be limited and our business would be harmed.

We calculate the size of our target market, customers groups and verticals within customer groups, based on data published by third parties and on assumptions that we have made based on that data. We have not independently verified any third-party information and cannot assure you of its accuracy or completeness. While we believe our market size information is generally reliable, such information is inherently imprecise. In addition, our projections, assumptions and estimates of future opportunities within our target market are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in this risk factors section. If third-party data proves to be inaccurate or we make errors in our assumptions based on that data, our future growth rate may be limited. In addition, these inaccuracies or errors may cause us to misallocate capital and other business resources, which could harm our business. In the third quarter of 2011, we identified previously unreported registration data during the first and second quarters of 2011. As a result, we underreported the number of registrations for these prior periods. We identified that the underreporting resulted primarily from the prior lack of the reporting systems of two new state customers. The underreporting had no impact on our prior financial statements, nor do we believe the underreporting had a material adverse effect on our business.

Risks Relating To Ownership Of Our Common Stock

Our stock price may be volatile.

The market price of our common stock may be subject to significant fluctuations. Factors that could affect our stock price include the following:

- fluctuations in our operating results or the operating results of our competitors;
- changes in estimates of our financial results or recommendations by securities analysts;
- changes in the estimates of the future size and growth rate of our markets;

changes in accounting principles or changes in interpretations of existing principles, which could affect our financial results;

conditions and trends in the markets we serve;

changes in general economic, industry and market conditions;

success of competitive applications and services;

changes in market valuations or earnings of our competitors;

changes in our pricing policies or the pricing policies of our competitors;

announcements of significant new applications, contracts, acquisitions or strategic alliances by us or our competitors;

changes in legislation or regulatory policies, practices or actions;

the commencement or outcome of litigation involving our company, our general industry or both;

recruitment or departure of key personnel;

changes in our capital structure, such as future issuances of securities or the incurrence of debt;

actual or expected sales of our common stock by the holders of our common stock; and

the trading volume of our common stock.

In addition, the U.S. and worldwide stock markets in general have experienced significant price and trading volume fluctuations, and the market prices of technology and Internet companies have generally been extremely volatile and have experienced sharp share price and trading volume changes. These broad market fluctuations may adversely affect the trading price of our common stock.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations. Compliance with these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management s attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Any new rules and regulations may increase the cost for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our Board committees.

As a result of our public disclosure requirements, our business and financial condition has become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

We do not expect to declare any dividends on our common stock in the foreseeable future.

We currently intend to invest our future earnings, if any, to fund the development and growth of our business. The payment of dividends will be at the discretion of our Board of Directors and will depend on our results of operations, capital requirements, financial condition, future prospects, restrictions imposed by applicable law, any limitations on payments of dividends present in any debt agreements we may enter into and other factors our Board of Directors may deem relevant. Consequently, stockholders may need to rely on sales of their 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.

Our directors, executive officers and significant stockholders hold a substantial portion of our stock, which may lead to conflicts of interest with other stockholders over corporate transactions and other corporate matters.

As of March 31, 2012, our directors, executive officers and beneficial holders of 10% or more of our outstanding common stock beneficially owned approximately 32% of our outstanding common stock, including restricted stock units awards vested and stock options exercisable within 60 days after March 31, 2012. We are not aware of any stockholder or voting agreements or understandings between or among our directors, officers or current beneficial holders of 10% or more of our outstanding common stock except with respect to an agreement between Scott Schultz, one of our directors, and the United States Tennis Association, pursuant to which the

United States Tennis Association receives the pecuniary benefit upon exercise of any options granted to Mr. Schultz. However, these stockholders, acting together, would be able to influence significantly all matters requiring stockholder approval, including the election of directors and significant corporate transactions such as mergers or other business combinations. This control could delay, deter or prevent a third party from acquiring or merging with us, which could adversely affect the market price of our common stock.

A large number of shares eligible for public sale or subject to rights requiring us to register them for public sale could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market in the future, and the perception that these sales could occur may also depress the market price of our common stock. From time to time, we may raise additional capital through issuances of equity or convertible debt securities, or issue additional equity for future acquisitions and may be required to register these securities with the SEC. Sales of our common stock pursuant to registration rights could cause our stock price to fall and make it more difficult for you to sell shares of our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our future capital needs are uncertain, and we may need to raise additional funds in the future, which may not be available on acceptable terms or at all.

Our capital requirements will depend on many factors, including:

- acceptance of, and demand for, our applications;
- the costs of developing new applications or technology;
- the timing of transitioning our customers to ActiveWorks;
- the number and timing of acquisitions and other strategic transactions; and
- the costs associated with the growth of our business.

Our existing sources of cash and cash flows may not be sufficient to fund all of our activities. On December 30, 2011, we used approximately $40 million of cash (including certain deductions and holdbacks) to fund our acquisition of StarCite. While we believe we have sufficient capital available through our credit facility and ongoing revenue to conduct our plan of business for at least the next 12 months, we may need to raise additional funds following such time, and such funds may not be available on reasonable terms, or at all. Further, if we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our applications, execute our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

If we issue additional shares of common stock to raise capital or for future acquisition purposes, it may have a dilutive effect on your investment.

If we raise additional capital through further issuances of equity or convertible debt securities, or issue additional equity for future acquisitions, our existing stockholders could suffer significant dilution in their percentage ownership of us. Moreover, any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

A further tightening of the credit markets may have an adverse effect on our ability to obtain short-term debt financing.

The recent deterioration of the global economy threatens to cause further tightening of the credit markets, more stringent lending standards and terms and higher volatility in interest rates. Persistence of these conditions could have a material adverse effect on our access to short-term debt and the terms and cost of that debt. As a result, we may not be able to secure additional financing in a timely manner, or at all, to meet our future capital needs which may have an adverse effect on our business, operating results and financial condition.

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Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current directors and management team and limit the market price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions include:

- dividing our board into three classes, with each class serving a staggered three-year term;
- prohibiting our stockholders from calling a special meeting of stockholders or acting by written consent;
- permitting our board to issue additional shares of our preferred stock, with such rights, preferences and privileges as they may designate, including the right to approve an acquisition or other changes in control;
- establishing an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- providing that our directors may be removed only for cause;
- providing 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; and
- requiring the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management team by making it more difficult for stockholders to replace members of our board, which is responsible for appointing the members of our management.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Registered Securities

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-172254) that was declared effective by the Securities and Exchange Commission on May 24, 2011, which registered an aggregate of 12,650,000 shares of our common stock, including 1,650,000 shares that the underwriters had the option to purchase. On May 31, 2011, 8,222,222 shares of common stock were sold on our behalf and 4,427,778 shares of common stock were sold on behalf of the selling stockholders, including 1,650,000 shares sold by the selling stockholders upon exercise in full of the underwriters option to purchase additional shares, at an initial public offering price of $15.00 per share, for an aggregate gross offering price of $123,333,330 to us, and $66,416,670 to the selling stockholders. Merrill Lynch, Pierce, Fenner & Smith and Citigroup Global Markets Inc. served as the managing underwriters of the initial public offering. Following the sale of the shares in connection with the closing of the initial public offering, the offering terminated.

As a result of the offering, we received net proceeds of approximately $112.6 million, after deducting underwriting discounts and commissions of approximately $8.6 million and additional offering-related expenses, net of reimbursements, of approximately $2.1 million. We did not receive any proceeds from the sale of shares by the selling shareholders. No offering expenses were paid directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates.

There was no material change in the use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b). From the effective date of the registration statement through March 31, 2012, we have used the net proceeds of the offering for repayment of debt, funding for our recent acquisitions and for general corporate purposes, including expenditures for financing our growth, developing additional application services functionality and features, acquiring new customers and funding capital expenditures. We invested the funds received in short-term, interest bearing, investment-grade securities.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		The Active Network, Inc.
Date: May 9th, 2012	By:	/s/ David Alberga **David Alberga** **Chairman of the Board and** **Chief Executive Officer** **(Principal Executive Officer)**
Date: May 9th, 2012	By:	/s/ Scott Mendel **Scott Mendel** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer 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 Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Label Linkbase Document.
101.PRE**	XBRL Taxonomy Presentation Linkbase Document.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of The Active Network, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.