

MINDBODY, Inc.  
Form 10-Q  
August 01, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-37453

MINDBODY, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-1898451  
(State or other jurisdiction of  
(I.R.S. Employer  
incorporation or organization) Identification No.)

4051 Broad Street, Suite 220

San Luis Obispo, CA 93401

(Address of principal executive offices and zip code)

(877) 755-4279

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a small reporting company) Small reporting company

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

As of July 26, 2016, the registrant had 19,732,441 shares of Class A common stock, and 19,992,998 shares of Class B common stock outstanding.

## Table of Contents

	Page
PART	
I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	5
<u>Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	5
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2016 and 2015</u>	6
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2016 and 2015</u>	7
<u>Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) for the Year Ended December 31, 2015 and the Six Months Ended June 30, 2016</u>	8
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015</u>	9
<u>Notes to Condensed Consolidated Financial Statements</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	33
PART	
II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	34
Item	
1A. <u>Risk Factors</u>	34
Item 6. <u>Exhibits</u>	56
<u>Signatures</u>	57
<u>Exhibit Index</u>	58

---

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to attract and retain subscribers;
- our ability to deepen our relationships with existing subscribers;
- our expectations regarding our subscriber growth rate, average revenue per subscriber, the usage of our payments platform and our dollar-based net expansion rate;
- our business plan and beliefs and objectives for future operations, including regarding our pricing and pricing model;
- benefits associated with use of our products and services;
- our ability to develop or acquire new products and services, improve our existing products and services and increase the value of our products and services;
- our ability to further develop strategic relationships;
- our ability to achieve positive returns on investments;
- our plans to further invest in and grow our business, including investment in research and development, sales and marketing, in the development of our customer support teams, and our data center infrastructure, and our ability to effectively manage our growth and associated investments;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to increase our revenue and our revenue growth rate;
- our future financial performance, including expectations regarding trends in revenue, cost of revenue, operating expenses, other income and expenses, income taxes, subscribers, average monthly revenue per subscriber and payments volume;
- the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements;
- the effects of seasonal trends on our operating results;
- the sufficiency of our efforts to remediate our past material weaknesses;
- our ability to attract and retain senior management, qualified employees and key personnel;
- our ability to successfully identify, acquire and integrate companies and assets;
- our ability to successfully enter new markets and manage our international expansion; and
- our ability to maintain, protect and enhance our intellectual property and not infringe upon others’ intellectual property.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q. You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations

3

---

disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## MINDBODY, INC.

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

(Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$87,910	\$93,405
Accounts receivable, net of allowance for doubtful accounts of \$144 and \$90 as of  June 30, 2016 and December 31, 2015	 8,017	 6,643
Prepaid expenses and other current assets	3,644	3,082
Total current assets	99,571	103,130
Property and equipment, net	34,013	31,754
Intangible assets, net	484	636
Goodwill	5,396	5,396
Other noncurrent assets	498	498
<b>TOTAL ASSETS</b>	<b>\$139,962</b>	<b>\$141,414</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$6,424	\$4,426
Accrued expenses and other liabilities	9,666	7,911
Deferred revenue, current portion	4,124	3,367
Other current liabilities	669	645
Total current liabilities	20,883	16,349
Deferred revenue, noncurrent portion	2,614	1,886
Deferred rent, noncurrent portion	1,340	1,254
Financing obligation on leases, noncurrent portion	15,750	15,961
Other noncurrent liabilities	188	181
Total liabilities	40,775	35,631
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Class A common stock, par value of \$0.000004 per share; 1,000,000,000 shares authorized,	—	—

19,644,157 shares issued and outstanding as of June 30, 2016; 1,000,000,000 shares authorized,

Edgar Filing: MINDBODY, Inc. - Form 10-Q

14,931,016 shares issued and outstanding as of December 31, 2015		
Class B common stock, par value of \$0.000004 per share; 100,000,000 shares authorized,		
20,080,000 shares issued and outstanding as of June 30, 2016; 100,000,000 shares authorized,		
24,296,346 shares issued and outstanding as of December 31, 2015	—	—
Additional paid-in capital	276,954	270,436
Accumulated other comprehensive loss	(241 )	(271 )
Accumulated deficit	(177,526)	(164,382)
Total stockholders' equity	99,187	105,783
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 139,962	\$ 141,414

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



## MINDBODY, INC.

## Condensed Consolidated Statements of Operations

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended June		Six Months Ended June 30,	
	30, 2016	2015	2016	2015
Revenue	\$33,561	\$24,760	\$65,568	\$47,023
Cost of revenue	10,713	8,809	20,685	17,502
Gross profit	22,848	15,951	44,883	29,521
Operating expenses:				
Sales and marketing	13,706	11,820	26,935	21,537
Research and development	7,594	5,476	15,011	10,201
General and administrative	7,681	7,262	15,204	14,042
Change in fair value of contingent consideration	—	(11 )	—	(11 )
Total operating expenses	28,981	24,547	57,150	45,769
Loss from operations	(6,133 )	(8,596 )	(12,267 )	(16,248 )
Change in fair value of preferred stock warrant	—	125	—	(25 )
Interest income	40	3	56	6
Interest expense	(332 )	(266 )	(660 )	(283 )
Other income (expense), net	(61 )	(53 )	(136 )	(92 )
Loss before provision for income taxes	(6,486 )	(8,787 )	(13,007 )	(16,642 )
Provision for income taxes	64	62	137	68
Net loss	(6,550 )	(8,849 )	(13,144 )	(16,710 )
Accretion of redeemable convertible preferred stock	—	(4,403 )	—	(9,862 )
Deemed dividend—preferred stock modification	—	—	—	1,748
Net loss attributable to common stockholders	\$(6,550 )	\$(13,252 )	\$(13,144 )	\$(24,824 )
Net loss per share attributable to common				
stockholders, basic and diluted	\$(0.16 )	\$(0.87 )	\$(0.33 )	\$(1.88 )
Weighted-average shares used to compute				
net loss per share attributable to common				
stockholders, basic and diluted	39,706,473	15,267,325	39,578,246	13,231,844

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

MINDBODY, INC.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	\$(6,550)	\$(8,849)	\$(13,144)	\$(16,710)
Other comprehensive gain (loss), net of taxes:				
Change in cumulative translation adjustment	(18 )	(9 )	30	(71 )
Comprehensive loss	\$(6,568)	\$(8,858)	\$(13,114)	\$(16,781)

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

## MINDBODY, INC.

## Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholder's Equity (Deficit)

(in thousands, except share data)

(Unaudited)

	Redeemable Convertible Preferred Stock Shares	Amount	Class A and B Common Stock Shares	Additional Paid-In Capital Amount	Accumulated Comprehensive Loss	Other Accumulated Deficit	Total Stockholders' Equity (Deficit)	
Balance as of December 31, 2014	20,454,489	\$ 166,448	11,189,360	\$ —	\$ —	\$ (132 )	\$ (124,793 )	\$ (124,925 )
Reclassification of restricted stock award liability to								
common stock	—	—	—	88	—	—	88	88
Deemed dividend—preferred stock modification	—	(1,748 )	—	—	—	1,748	1,748	1,748
Accretion of redeemable convertible preferred stock								
to redemption value	—	9,862	—	(4,613 )	—	(5,249 )	(9,862 )	(9,862 )
Issuance of common stock upon initial public								
offering, net of offering costs of \$4,024	—	—	7,150,000	89,069	—	—	89,069	89,069
Conversion of redeemable convertible preferred stock to								
common stock in connection with initial public offering	(20,454,489)	(174,562)	20,673,680	174,562	—	—	174,562	174,562
Reclassification of preferred stock warrant liability to	—	—	—	1,213	—	—	1,213	1,213

equity in  
connection with  
initial public  
offering  
Stock-based  
compensation  
expense

—