

NETSUITE INC
Form 10-Q
August 02, 2016
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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 001-33870

NetSuite Inc.
(Exact name of registrant as specified in its charter)

Delaware 94-3310471
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

2955 Campus Drive, Suite 100
San Mateo, California 94403-2511
(Address of principal executive offices) (Zip Code)
(650) 627-1000
(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). (Check one): 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

On July 29, 2016, 80,928,937 shares of the registrant's Common Stock, \$0.01 par value, were issued and outstanding.

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PART I – Financial Information

ITEM 1. Financial Statements

NetSuite Inc.

Condensed Consolidated Balance Sheets

(dollars in thousands)

(unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 317,510	\$ 289,966
Short-term marketable securities	90,185	74,748
Accounts receivable, net of allowances of \$3,216 and \$1,988 as of June 30, 2016 and December 31, 2015, respectively	177,088	176,720
Deferred commissions	68,974	69,579
Other current assets	47,325	44,087
Total current assets	701,082	655,100
Marketable securities, non-current	2,972	13,875
Property and equipment, net	95,563	89,643
Deferred commissions, non-current	17,553	15,287
Goodwill	305,705	291,956
Other intangible assets, net	55,158	60,980
Other assets	11,010	10,756
Total assets	\$ 1,189,043	\$ 1,137,597
Liabilities and total equity		
Current liabilities:		
Accounts payable	\$ 9,976	\$ 3,545
Deferred revenue	436,677	404,986
Accrued compensation	54,868	55,586
Accrued expenses	34,106	37,901
Other current liabilities (including note payable to related party of \$2,967 and \$2,901 as of June 30, 2016 and December 31, 2015, respectively)	16,295	17,032
Total current liabilities	551,922	519,050
Long-term liabilities:		
Convertible 0.25% senior notes, net	281,540	274,576
Deferred revenue, non-current	26,813	22,743
Other long-term liabilities (including note payable to related party of \$1,527 and \$3,027 as of June 30, 2016 and December 31, 2015, respectively)	14,783	15,027
Total long-term liabilities	323,136	312,346
Total liabilities	875,058	831,396
Commitments and contingencies (Note 4)		
Total equity:		
Common stock, par value \$0.01, 500,000,000 shares authorized; 80,921,604 and 79,802,618 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	809	798
Additional paid-in capital	1,068,920	992,362
Accumulated other comprehensive loss	(14,306)	(13,009)

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Accumulated deficit	(741,438)	(673,950)
Total equity	313,985	306,201
Total liabilities and total equity	\$1,189,043	\$ 1,137,597

See accompanying Notes to Condensed Consolidated Financial Statements.

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NetSuite Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(dollars and shares in thousands, except per share data)

(unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Subscription and support	\$353,528	\$273,896	\$180,194	\$140,922
Professional services and other	93,821	68,201	50,577	36,358
Total revenue	447,349	342,097	230,771	177,280
Cost of revenue:				
Subscription and support	61,809	43,444	32,018	22,454
Professional services and other	94,148	68,058	52,087	36,687
Total cost of revenue	155,957	111,502	84,105	59,141
Gross profit	291,392	230,595	146,666	118,139
Operating expenses:				
Product development	77,449	62,256	39,597	32,537
Sales and marketing	227,005	179,057	117,314	95,803
General and administrative	45,513	44,075	23,219	25,642
Total operating expenses	349,967	285,388	180,130	153,982
Operating loss	(58,575)	(54,793)	(33,464)	(35,843)
Other income / (expense), net:				
Interest income	354	216	203	113
Interest expense	(7,547)	(7,153)	(3,797)	(3,520)
Other income, net	465	(264)	307	(266)
Total other income / (expense), net	(6,728)	(7,201)	(3,287)	(3,673)
Loss before income taxes	(65,303)	(61,994)	(36,751)	(39,516)
Provision for income taxes	2,185	(6,994)	992	(7,229)
Net loss	\$(67,488)	\$(55,000)	\$(37,743)	\$(32,287)
Net loss per common share, basic and diluted	\$(0.84)	\$(0.71)	\$(0.47)	\$(0.41)
Weighted average number of shares used in computing net loss per share	80,364	77,627	80,641	77,975
Comprehensive loss:				
Foreign currency translation gain / (loss), net of taxes	(1,569)	(1,411)	(2,535)	2,587
Unrealized gain on marketable securities	134	16	44	—
Accumulated pension liability	138	98	69	49
Comprehensive loss	\$(68,785)	\$(56,297)	\$(40,165)	\$(29,651)

See accompanying Notes to Condensed Consolidated Financial Statements.

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NetSuite Inc.

Condensed Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	Six Months Ended June 30, 2016		2015	
Cash flows from operating activities:				
Net loss	\$ (67,488)		\$ (55,000)	
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	19,224		13,420	
Amortization of other intangible assets	9,658		6,817	
Amortization of debt discount and transaction costs	6,964		6,641	
Provision for accounts receivable allowances	1,347		496	
Stock-based compensation	64,066		53,288	
Amortization of deferred commissions	58,635		46,164	
Excess tax benefit on stock-based compensation	(79)		(223)	
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:				
Accounts receivable	(1,332)		4,557	
Deferred commissions	(60,314)		(48,072)	
Other current assets	(2,310)		1,488	
Other assets	(87)		(8,216)	
Accounts payable	5,489		318	
Accrued compensation	(908)		(3,682)	
Deferred revenue	35,165		29,435	
Other current liabilities	(1,384)		4,251	
Other long-term liabilities	1,321		192	
Net cash provided by operating activities	67,967		51,874	
Cash flows from investing activities:				
	(24,137)		(23,239)	

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Purchases of property and equipment				
Capitalized internal use software	(1,834)	(1,633)
Cash paid in business combination, net of amounts received	(18,247)	(95,565)
Purchases of marketable securities	(79,527)	(65,674)
Maturities of marketable securities	62,235		70,263	
Sales of marketable securities	12,693		104	
Net cash used in investing activities	(48,817)	(115,744)
Cash flows from financing activities:				
Payments under capital leases	(28)	(112)
Payments under capital leases and long-term debt - related party	(1,434)	(1,371)
Payments related to business combinations	(44)	(1,335)
RSUs acquired to settle employee withholding liability	(105)	(6,926)
Excess tax benefit on stock-based compensation	79		223	
Proceeds from issuance of common stock	11,931		4,512	
Net cash provided by / (used in) financing activities	10,399		(5,009)
Effect of exchange rate changes on cash and cash equivalents	(2,005)	(273)
Net change in cash and cash equivalents	27,544		(69,152)
Cash and cash equivalents at beginning of period	289,966		367,769	
Cash and cash equivalents at end of period	\$ 317,510		\$ 298,617	
Supplemental cash flow disclosure:				
Cash paid for interest to related parties	\$ 125		\$ 188	
	\$ 463		\$ 464	

Cash paid for interest to other parties			
Cash paid for income taxes, net of tax refunds	\$	1,305	\$ 1,099
Noncash financing and investing activities:			
Common stock issued in connection with business combination	\$	—	\$ 85,881

See accompanying Notes to Condensed Consolidated Financial Statements.

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NetSuite Inc.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Organization

NetSuite Inc. (the "Company") provides cloud-based financials/Enterprise Resource Planning ("ERP") and omnichannel commerce software suites. In addition, the Company offers a broad suite of applications, including financial management, Customer Relationship Management ("CRM"), ecommerce and retail management, commerce marketing automation, Professional Services Automation ("PSA") and Human Capital Management ("HCM") that enable companies to manage most of their core business operations in its single integrated suite. The Company's "real-time dashboard" technology provides an easy-to-use view into up-to-date, role-specific business information. The Company also offers customer support and professional services related to implementing and supporting its suite of applications. The Company delivers its suite over the Internet as a subscription service using the software-as-a-service ("SaaS") model. The Company's headquarters are located in San Mateo, California. The Company conducts its business worldwide with international locations in Canada, Europe, Asia, Australia and Uruguay.

Note 2. Basis of Presentation

The Condensed Consolidated Financial Statements as of and for the six months ended June 30, 2016 included in this Quarterly Report on Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The condensed consolidated balance sheet data as of December 31, 2015 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed on February 24, 2016. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this Quarterly Report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed on February 24, 2016.

The unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q reflect all adjustments (which include only normal, recurring adjustments and those items discussed in these Notes) that are, in the opinion of management, necessary to state fairly the financial position and results for the dates and periods presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued new accounting guidance: Compensation-Stock Compensation: Improvements to Employee Share-Based Payment. The guidance simplifies the accounting for share-based transactions, including the income tax consequences, classification of awards as either equity or liabilities on the balance sheet, and classification of employee taxes paid on statement of cash flows when an employer withholds shares for tax-withholding purposes. The new standard is effective for interim and annual periods beginning after December 15, 2016 and early adoption is permitted. The Company has elected not to early adopt. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In February 2016, the FASB issued new accounting guidance: Leases. The guidance requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The guidance states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company has elected not to early adopt and is evaluating the potential impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition, Revenue from Contracts with Customers. This new standard will replace most existing U.S. GAAP guidance on this topic. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the

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consideration for which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one-year deferral of the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP. In accordance with the deferral, this guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted beginning January 1, 2017. The Company is evaluating the impact of adopting this new accounting standard on its financial statements and has not selected a transition method.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company generates revenue from two sources: (1) subscription and support; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing its on-demand application suite and support fees from customers purchasing support. Arrangements with customers do not provide the customer with the right to take possession of the software supporting the on-demand application service at any time. Professional services and other revenue includes fees generated from training and consulting services such as business process mapping, configuration, data migration and integration. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. In aggregate, 85% of the professional services component of the arrangements with customers is performed within 300 days of entering into a contract with the customer.

The subscription agreements generally provide service level commitments of 99.5% uptime per period, excluding scheduled maintenance. The failure to meet this level of service availability may require the Company to credit qualifying customers up to the value of an entire month of their subscription and support fees. In light of the Company's historical experience with meeting its service level commitments, the Company's accrued liability related to such obligations in the accompanying consolidated financial statements is negligible.

The Company commences revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service is being provided to the customer;
- The collection of the fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

In most instances, revenue from new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support fees from customers accessing the Company's on-demand application suite and professional services associated with consultation services. The Company evaluates each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is

probable and within the Company's control. Subscription and support have standalone value because they are routinely sold separately by the Company. Professional services have standalone value because the Company has sold professional services separately and there are several third-party vendors that routinely provide similar professional services to its customers on a standalone basis.

The Company allocates revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence ("VSOE"), if available, third-party evidence ("TPE"), if VSOE is not available, or estimated selling price ("ESP"), if neither VSOE nor TPE is available. As the Company has been unable to establish VSOE or TPE for the elements of its arrangements, the Company establishes the ESP for each element primarily by considering the weighted average of actual sales prices of professional services sold on a standalone basis and subscription and support including various add-on modules when sold together without professional services, and other factors such as gross margin objectives, pricing practices and growth strategy. The consideration allocated to subscription and support

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is recognized as revenue over the contract period commencing when the subscription service is made available to the customer. The consideration allocated to professional services is recognized as revenue using the proportional performance method.

The total arrangement fee for a multiple element arrangement is allocated based on the relative ESP of each element. However, since the professional services are generally completed prior to completion of delivery of subscription and support services, the revenue recognized for professional services in a given reporting period does not include fees subject to delivery of subscription and support services. This results in the recognition of revenue for professional services that is generally no greater than the contractual fees for those professional services.

For single element sales agreements, subscription and support revenue is recognized ratably over the contract term beginning on the provisioning date of the contract. The Company recognizes professional services revenue using the proportional performance method for single element arrangements.

Sales and other taxes collected from customers to be remitted to government authorities are excluded from revenues.

Concentration of Credit Risk and Significant Customers

Financial instruments potentially exposing the Company to concentration of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash and trade accounts receivable. The Company maintains an allowance for doubtful accounts receivable balances. The allowance is based upon historical loss patterns and an evaluation of the potential risk of loss associated with problem accounts. The Company generally charges off the receivable balances of uncollectible accounts when accounts are 120 days past-due based on the account's contractual terms. Credit risk arising from accounts receivable is mitigated due to the large number of customers comprising the Company's customer base and their dispersion across various industries. As of June 30, 2016 and December 31, 2015, there were no customers that represented more than 10% of the net accounts receivable balance. There were no customers that individually exceeded 10% of the Company's revenue in any of the periods presented. As of June 30, 2016 and December 31, 2015, long-lived assets located outside the United States totaled \$27.7 million and \$21.4 million, respectively.

Revenue by geographic region, based on the billing address of the customer, was as follows for the periods presented:

	Six Months Ended June 30,		Three Months Ended June 30,		
	2016	2015	2016	2015	
	(dollars in thousands)				
United States	\$334,638	\$254,639	\$172,158	\$133,269	
International	112,711	87,458	58,613	44,011	
Total revenue	\$447,349	\$342,097	\$230,771	\$177,280	
Percentage of revenue generated outside of the United States	25	% 26	% 25	% 25	%

No single country outside the United States represented more than 10% of revenue during the six months ended June 30, 2016 or 2015.

The Company maintains cash balances at several banks. Accounts located in the United States are insured by the Federal Deposit Insurance Corporation ("FDIC"), up to \$250,000. Certain operating cash accounts may exceed the FDIC limits.

Intellectual Property Rights Indemnification

The Company's arrangements include provisions indemnifying customers against liabilities if the Company's products infringe a third-party's intellectual property rights. The Company has not incurred any costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying condensed consolidated financial statements.

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Business Combinations

During six months ended June 30, 2016, the Company purchased all the outstanding equity of a professional services firm ("PFS") and acquired certain assets and assumed certain obligations from an on-demand manufacturing software company ("MSC"), a private company that provides its customers with resource planning, production scheduling and quality management services. In connection with these acquisitions, the Company incurred transaction costs totaling \$1.8 million, and are reflected as general and administrative expense in the Company's statement of operations.

The following table summarizes the preliminary allocation of the consideration to the fair value of assets acquired and liabilities assumed as of the acquisition dates:

	2016 Acquisitions	
	PFS	MSC
	April 1, 2016	February 26, 2016
	(dollars in thousands)	
Developed technology	\$—	\$1,500
Customer relationships	1,840	250
Goodwill	7,034	7,774
Other assets / (liabilities), net	1,033	(212)
Fair value of assets acquired and liabilities assumed	\$9,907	\$9,312

Under the acquisition method of accounting, the Company allocated the purchase price to the identifiable assets and liabilities based on their estimated fair value at the date of acquisition. To determine the value of the intangible assets, the Company made various estimates and assumptions. For PFS, the methodologies used in valuing the intangible assets include, but are not limited to, multiple period excess earnings method for customer relationships. For MSC, the methodologies used in valuing the intangible assets include, but are not limited to, the multiple period excess earnings approach for developed technology and the with-and-without approach for customer relationships. In both acquisitions, the excess of the purchase price over the total net identifiable assets has been recorded as goodwill which includes synergies expected from the expanded service capabilities and the value of the assembled workforce in accordance with generally accepted accounting principles. \$7.0 million of the acquired PFS goodwill is expected to be deductible for tax purposes, and \$7.8 million of the acquired MSC goodwill is expected to be deductible for tax purposes. The Company did not record any in-process research and development intangible assets in connection with the acquisitions.

The Company will amortize certain intangible assets on a straight-line basis over the following periods:

	PFS	MSC
	Fair Value	Fair Value
	Useful Life	Useful Life
	(dollars in (in years) thousands)	(dollars in (in years) thousands)
Developed technology	\$—	\$1,500 5
Customer relationships	1,840	250 4

PFS

On April 1, 2016, the Company acquired PFS to increase its professional services resources. Beginning in the second quarter of 2016, PFS assets, liabilities and operating results are reflected in the Company's condensed consolidated financial statements from the date of acquisition. On the closing date, the Company paid approximately \$9.7 million in cash and will pay an additional \$202,000 in the third quarter of 2016. Of the consideration paid, \$1.4 million is being held in escrow for up to 24 months following the close of the transaction in the event of certain breaches of representations and warranties. Acquisition related transaction costs amounted to \$1.0 million in the three months period ended June 30, 2016, and are reflected as general and administrative expense in the Company's statement of operations.

The initial accounting for PFS accounts receivable, intangible assets, other employee related liabilities, and vendor obligations is incomplete because the Company is in the process of determining the fair value of these assets and liabilities. The

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Company is also undertaking an analysis of certain tax matters associated with the PFS acquisition which could result in an adjustment to the acquisition price allocation.

MSC

On February 26, 2016, the Company acquired certain assets and assumed certain obligations from an on-demand manufacturing software company ("MSC"), a private company that provides its customers with resource planning, production scheduling and quality management services. MSC functionality will be added to the Company's existing solution. Beginning in the first quarter of 2016, MSC assets, liabilities and operating results are reflected in the Company's condensed consolidated financial statements from the date of acquisition. The Company paid approximately \$9.3 million in cash. Of the consideration paid, \$1.1 million is being held in escrow for up to 24 months following the close of the transaction in the event of certain breaches of representations, and warranties. Additionally, \$400,000 of the total consideration is being held in escrow for potential tax obligations covered in the purchase agreement. Acquisition related transaction costs amounted to \$725,000 in the six months ended June 30, 2016, and are reflected as general and administrative expense in the statement of operations.

The initial accounting for MSC accounts receivable, intangible assets, other customer related liabilities, and vendor obligations is incomplete because the Company is in the process of determining the fair value of these assets and liabilities. The Company is also undertaking an analysis of certain tax matters associated with the MSC acquisition which could result in an adjustment to the acquisition price allocation.

Comparative pro forma financial information for the acquisitions above have not been presented because the historical financial results of both PFS and MSC are not material to the Company's condensed consolidated results of operations individually or in aggregate.

Goodwill

The following table details the Company's goodwill activity during the six months ended June 30, 2016:

	(dollars in thousands)
Balance as of January 1, 2016	\$291,956
Acquisition of MSC	7,774
Acquisition of PFS	7,034
Other adjustments to goodwill	(1,872)
Foreign exchange adjustment	813
Balance as of June 30, 2016	\$305,705

On June 8, 2015, the Company completed the purchase of all the outstanding equity of Bronto Software, Inc. ("Bronto"), a private company that provides a cloud-based marketing platform for its customers to drive revenue through their email, mobile and social campaigns. Bronto functionality enhances the Company's existing email marketing solution and its existing omnichannel commerce platform. The Company paid approximately \$98.2 million in cash and issued 1,030,508 unregistered shares of the Company's common stock with a fair value of \$85.9 million, inclusive of a discount from the quoted market price due to certain trading restrictions associated with the shares. During the second quarter of 2016, the Company decreased Bronto goodwill by \$1.1 million due to working capital and tax adjustments.

On August 5, 2015, the Company completed the purchase of all the outstanding equity of Monexa Services Inc. ("Monexa"), a private company that provides cloud-based invoicing and payment services for its customers. Monexa

functionality enhances the Company's existing invoicing and payment solution. On the closing date, the Company paid approximately \$33.1 million in cash as consideration. During the first quarter of 2016, the Company increased the fair value of the customer relationships and developed technology by a total of \$900,000 resulting in a reduction of goodwill.

The initial accounting for Monexa intangible assets is incomplete because the Company is in the process of determining the fair value of these assets. The Company is also undertaking an analysis of certain tax matters associated with the Monexa acquisition which could result in an adjustment to the acquisition price allocation.

Accumulated Other Comprehensive Loss

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Accumulated other comprehensive loss is comprised of foreign currency translation gains and losses, net of tax, marketable securities unrealized gains and losses and an accumulated pension liability for employees located in the Philippines. There were no significant reclassification adjustments out of accumulated other comprehensive loss to the condensed consolidated statement of operations and comprehensive loss.

Note 3. Financial Instruments

The Company invests primarily in money market funds, commercial paper, highly liquid debt instruments of the U.S. government and its agencies, U.S. municipal obligations, and U.S. and foreign corporate debt securities. All highly liquid investments with maturities of 90 days or less from date of purchase are classified as cash equivalents and all highly liquid investments with maturities of greater than 90 days but less than a year from date of purchase are classified as short-term marketable securities. Highly liquid investments with maturities of greater than a year from the balance sheet date are classified as marketable securities, non-current. Short-term marketable securities and marketable securities, non-current are also classified as available-for-sale. The Company intends to hold marketable securities, non-current, until maturity; however, it may sell these securities at any time for use in current operations or for other purposes, such as consideration for acquisition. Consequently, the Company may or may not hold securities with stated maturities greater than twelve months until maturity.

The Company carries its fixed income investments at fair value and unrealized gains and losses on these investments, net of taxes, are included in accumulated other comprehensive loss, a component of total equity. Realized gains or losses are included in other income / (expense), net section of the condensed consolidated statement of operations and comprehensive loss. When a determination has been made that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is realized and is included in the other income / (expense), net section of the consolidated statement of operations and comprehensive loss.

Cash equivalents and Marketable securities consist of the following investments:

	June 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents:	(in thousands)			
Money market funds	\$21,316	\$	—\$	—\$21,316
Commercial paper	1,700	—	—	1,700
Marketable securities:				
Commercial paper	51,100			