

Cornerstone OnDemand Inc
Form DEF 14A
April 29, 2016

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

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Cornerstone OnDemand, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

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(4) Date Filed:

April 29, 2016

Dear Cornerstone OnDemand, Inc. Stockholders:

You are cordially invited to attend our 2016 Annual Meeting of Stockholders (the “Annual Meeting”), which will be held on Wednesday, June 8, 2016 at 1:00 p.m. Pacific Time at the Company’s headquarters, located at 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404.

At the Annual Meeting, stockholders will be asked to vote on the two proposals set forth in the Notice of 2016 Annual Meeting of Stockholders and described in the accompanying proxy statement.

It is important that your shares of the Company’s common stock are represented and voted at the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. Voting your proxy will ensure your representation at the Annual Meeting. We urge you to carefully review the proxy materials and to vote FOR the election of the two directors nominated by our board of directors and named in the accompanying proxy statement as Class II directors to serve for three-year terms and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016.

Thank you for your continued support of Cornerstone OnDemand, Inc.

Sincerely,

/s/ Adam L. Miller

Adam L. Miller

Chief Executive Officer

CORNERSTONE ONDEMAND, INC.
1601 Cloverfield Blvd., Suite 620 South
Santa Monica, California 90404

NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on Wednesday, June 8, 2016
at 1:00 p.m. Pacific Time

The 2016 Annual Meeting of Stockholders (the “Annual Meeting”) of Cornerstone OnDemand, Inc., a Delaware corporation, will be held at the Company’s headquarters, located at 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404 on Wednesday, June 8, 2016 at 1:00 p.m. Pacific Time and, if applicable, at any adjournments or postponements thereof. At the Annual Meeting, our stockholders will be asked:

¹ To elect two Class II directors to serve until the 2019 annual meeting of stockholders and until their successors are duly elected and qualified;

² To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016; and

³ To transact such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

The accompanying proxy statement more fully describes these proposals.

We have elected to take advantage of a U.S. Securities and Exchange Commission rule that allows us to furnish our proxy materials over the Internet to our stockholders rather than in paper form. We believe that this delivery process reduces our environmental impact and lowers the cost of printing and distributing our proxy materials without affecting our stockholders’ timely access to this important information. Accordingly, unless you have previously requested to receive our proxy materials in paper form, you will receive a Notice of Internet Availability of Proxy Materials (the “Notice”), which we expect to mail on or about April 29, 2016. The Notice will explain how to access our proxy materials and vote by telephone or over the Internet.

Our board of directors has fixed the close of business on April 15, 2016 as the record date for the Annual Meeting. Only stockholders of record on April 15, 2016 are entitled to receive notice of and vote at the Annual Meeting. All stockholders are invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, please vote as soon as possible by following the instructions in the Notice. Any stockholder attending the Annual Meeting may vote in person even if he, she or it has voted using the Internet, telephone or proxy card, and any previous votes that were submitted by the stockholder, whether by Internet, telephone or mail, will be superseded by the vote such stockholder casts at the Annual Meeting. For further information, please see the information in the Notice and in the accompanying proxy statement.

By order of the Board of Directors

/s/ Adam L. Miller
Adam L. Miller
Chief Executive Officer
Santa Monica, California
April 29, 2016

YOUR VOTE IS EXTREMELY IMPORTANT. TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, YOU ARE URGED TO VOTE BY TELEPHONE OR INTERNET AS PROMPTLY AS POSSIBLE. ALTERNATIVELY, YOU MAY REQUEST A PAPER PROXY CARD, WHICH YOU MAY COMPLETE, SIGN AND RETURN BY MAIL.

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CORNERSTONE ONDEMAND, INC.

PROXY STATEMENT
FOR THE 2016 ANNUAL MEETING OF STOCKHOLDERS
To Be Held on Wednesday, June 8, 2016
at 1:00 p.m. Pacific Time

GENERAL INFORMATION

We are providing you with this proxy statement and the enclosed form of proxy in connection with the solicitation by the board of directors of Cornerstone OnDemand, Inc. of proxies to be used at our 2016 Annual Meeting of Stockholders (the "Annual Meeting"). The Annual Meeting will be held at the Company's headquarters, located at 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404, on Wednesday, June 8, 2016 at 1:00 p.m. Pacific Time and, if applicable, at any adjournment or postponement thereof. This proxy statement contains important information regarding the Annual Meeting, the proposals on which you are being asked to vote, information you may find useful in determining how to vote, and information about voting procedures. As used herein, "we," "us," "our," "Cornerstone" or the "Company" refers to Cornerstone OnDemand, Inc., a Delaware corporation.

This proxy statement and our annual report to stockholders were first made available to our stockholders on or about April 29, 2016.

The information provided in the "question and answer" format below addresses certain frequently asked questions but is not intended to be a summary of all matters contained in this proxy statement. You should read this entire proxy statement carefully before voting your shares. Information contained on, or that can be accessed through, our website is not intended to be incorporated by reference into this proxy statement and references to our website address in this proxy statement are inactive textual references only.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

In accordance with the "notice and access" rules of the U.S. Securities and Exchange Commission (the "SEC"), instead of mailing a printed copy of our proxy statement, proxy card and annual report (collectively, the "proxy materials") to stockholders entitled to vote at the Annual Meeting, we are furnishing the proxy materials to our stockholders over the Internet. If you received a Notice of Internet Availability of Proxy Materials (the "Notice") by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review the proxy materials and submit your vote via the Internet. If you received a Notice by mail and would like to receive a printed copy of the proxy materials, please follow the instructions for requesting such materials included in the Notice.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND THESE PROXY MATERIALS

What matters will be voted on at the Annual Meeting?

At the Annual Meeting, stockholders will be voting on:

- the election of two Class II directors to serve until the 2019 annual meeting of stockholders and until their successors are duly elected and qualified;
- a proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2016; and
- any other business that may properly come before the Annual Meeting or any adjournments or postponements thereof.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote:

FOR the election of Harold Burlingame and James McGeever as Class II directors; and

FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2016.

Will there be any other items of business on the agenda?

If any other items of business or other matters are properly brought before the Annual Meeting, your proxy gives discretionary authority to the persons named on the proxy card with respect to those items of business or other matters. The persons named on the proxy card intend to vote the proxy in accordance with their best judgment. Our board of directors does not intend to bring any other matters to be voted on at the Annual Meeting. We are not currently aware of any other matters that may properly be presented by others for action at the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Holders of our common stock at the close of business on April 15, 2016, the record date for the Annual Meeting, are entitled to receive notice of and vote at the Annual Meeting. Each stockholder is entitled to one vote for each share of our common stock held as of the record date. As of the record date, there were 55,047,598 shares of our common stock outstanding and entitled to vote at the Annual Meeting. No shares of preferred stock were outstanding.

A complete list of the stockholders entitled to vote at the Annual Meeting will be available at our headquarters, located at 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404, during regular business hours for the ten days prior to the Annual Meeting. This list also will be available during the Annual Meeting at the meeting location. Stockholders may examine the list for any legally valid purpose related to the Annual Meeting.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Stockholders of Record. If, at the close of business on the record date, your shares of our common stock are registered directly in your name with Computershare Trust Company, N.A., our transfer agent, you are considered to be the stockholder of record of such shares. Throughout this proxy statement, we refer to registered stockholders as “stockholders of record.” If you are a stockholder of record, you have the right to grant your voting proxy directly to the individuals listed on the proxy card or to vote in person at the Annual Meeting.

Beneficial Owner. If, at the close of business on the record date, your shares of our common stock were held in a brokerage account or by a bank or other nominee on your behalf, you are considered to be the “beneficial owner” of shares of common stock held in “street name.” Throughout this proxy statement, we refer to stockholders who hold their shares through a broker, bank or other nominee as “beneficial owner.” If you are a beneficial owner, you have the right to direct your broker, bank or other nominee how to vote your shares by following the voting instructions your broker, bank or other nominee provides. If you do not provide your broker, bank or other nominee with instructions on how to vote your shares, your broker, bank or other nominee may not vote your shares with respect to any non-routine matters, but it may, in its discretion, vote your shares with respect to routine matters. Please see “What if I do not specify how my shares are to be voted?” for a description of routine versus non-routine matters.

Do I have to do anything in advance if I plan to attend the Annual Meeting in person?

Stockholders of Record. If you are a stockholder of record, you do not need to do anything in advance to attend and/or vote your shares in person at the Annual Meeting, but you will need to present government-issued photo identification for entrance to the Annual Meeting.

Beneficial Owner. If you are a beneficial owner, you may not vote your shares in person at the Annual Meeting unless you obtain a “legal proxy” from the broker, bank or other nominee who is the stockholder of record with respect to your shares. You may still attend the Annual Meeting even if you do not have a legal proxy. For entrance to the Annual Meeting, you will need to present government-issued photo identification and provide proof of beneficial ownership as of the record date, such as the notice or voting instructions you received from your broker, bank or other nominee or a brokerage statement reflecting your ownership of shares as of the record date.

How do I vote and what are the voting deadlines?

Stockholders of Record. If you are a stockholder of record, there are several ways for you to vote your shares: Over the Internet, by telephone or by mail. If you are a stockholder of record, you may instruct the proxy holders how to vote your shares by using the Internet voting site or the toll-free telephone number listed on the Notice. Alternatively, you may request a proxy card by telephone at 1-800-579-1639, over the Internet at www.proxyvote.com, or by email at sendmaterial@proxyvote.com, and complete, sign, date and return the proxy card in the postage pre-paid envelope provided. If you request a proxy card pursuant to the preceding sentence, please sign your name exactly as it appears on the proxy card. Proxy cards submitted by mail must be received no later than June 7, 2016 for your shares to be voted at the Annual Meeting. Specific instructions for using the telephone and

Internet voting systems are on the proxy card and in the Notice. The telephone and Internet voting systems for stockholders of record will be

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available until 11:59 p.m. Eastern Time on June 7, 2016. Regardless of the method you select to transmit your voting instructions, the proxy holders will vote your shares in accordance with your instructions. If you sign and return a proxy card without giving specific voting instructions with respect to one or more proposals, your shares will be voted as recommended by our board of directors.

In person at the Annual Meeting. You may vote your shares in person at the Annual Meeting by delivering your completed proxy card in person or by completing and submitting a ballot, which will be provided at the Annual Meeting. Even if you plan to attend the Annual Meeting in person, we recommend that you also submit your proxy card or voting instructions by mail or vote by telephone or via the Internet by the applicable deadline so that your vote will be counted if you later decide not to attend the Annual Meeting.

Beneficial Owners. If you are a beneficial owner, you will receive voting instructions from your broker, bank or other nominee. You must follow the voting instructions provided by your broker, bank or other nominee in order to instruct your broker, bank or other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of your broker, bank or other nominee. As discussed above, if you are a beneficial owner, you may not vote your shares in person at the Annual Meeting unless you obtain a “legal proxy” from your broker, bank or other nominee.

Can I revoke or change my vote after I submit my proxy?

Stockholders of Record. If you are a stockholder of record, you may revoke your proxy or change your proxy instructions at any time before your proxy is voted at the Annual Meeting by:

- entering a new vote by Internet or by telephone;
- signing and returning a new proxy card with a later date;
- delivering a written revocation to our General Counsel at Cornerstone OnDemand, Inc., 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404, by 11:59 Eastern Time on June 7, 2016; or
- attending the Annual Meeting and voting in person.

Beneficial Owners. If you are a beneficial owner, you must contact the broker, bank or other nominee holding your shares and follow its instructions to change your vote or revoke your proxy.

What is the effect of giving a proxy?

Proxies are solicited by and on behalf of our board of directors. The persons named in the proxy have been designated as proxy holders by our board of directors. When a proxy is properly dated, executed and returned, the shares represented by the proxy will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, however, the shares will be voted in accordance with the recommendations of our board of directors. If any matters not described in this proxy statement are properly presented at the Annual Meeting, the proxy holders will use their own judgment to determine how to vote your shares. If the Annual Meeting is postponed or adjourned, the proxy holders can vote your shares on the new meeting date, unless you have properly revoked your proxy, as described above.

What if I do not specify how my shares are to be voted?

Stockholders of Record. If you are a stockholder of record and you submit a proxy but you do not provide voting instructions, your shares will be voted:

• **FOR** the election of Harold Burlingame and James McGeever as Class II directors (Proposal 1);

• **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2016 (Proposal 2); and

- In the discretion of the named proxies regarding any other matters properly presented for a vote at the Annual Meeting or any adjournments or postponements thereof.

Beneficial Owners. If you are a beneficial owner and you do not provide the broker, bank or other nominee that holds your shares with voting instructions, your broker, bank or other nominee will determine if it has the discretionary authority to vote on the particular matter. Brokers, banks and other nominees do not have discretion to vote on non-routine matters. Proposal 1 is a non-routine matter, while Proposal 2 is a routine matter. As a result, if you do not provide voting instructions to your broker, bank or other nominee, your broker, bank or other nominee may not vote your shares with respect to Proposal 1, which would result in a broker non-vote, but may, in its discretion, vote your shares with respect to Proposal 2. For additional information regarding broker non-votes, see “What are the effects of

abstentions and broker non-votes?" below.

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What constitutes a quorum, and why is a quorum required?

A quorum is the minimum number of shares required to be present at the Annual Meeting for the meeting to be properly held under our bylaws and Delaware law. A quorum exists when at least a majority of the outstanding shares entitled to vote at the close of business on the record date are represented at the Annual Meeting, either in person or by proxy. As of the close of business on the record date, we had 55,047,598 shares of common stock outstanding and entitled to vote at the Annual Meeting, meaning that 27,523,800 shares of common stock must be represented in person or by proxy at the Annual Meeting to have a quorum. If there is not a quorum, a majority of the shares present at the Annual Meeting may adjourn the meeting to a later date.

What are the effects of abstentions and broker non-votes?

An abstention represents a stockholder's affirmative choice to decline to vote on a proposal. If a stockholder indicates on its proxy card that it wishes to abstain from voting its shares, or if a broker, bank or other nominee holding its customers' shares of record causes abstentions to be recorded for shares, these shares will be considered present and entitled to vote at the Annual Meeting. As a result, abstentions will be counted for purposes of determining the presence or absence of a quorum and will also count as votes against a proposal in cases where approval of the proposal requires the affirmative vote of a majority of the shares present and entitled to vote at the Annual Meeting (e.g. Proposal 2). However, because the outcome of Proposal 1 (election of directors) will be determined by a plurality of the votes cast, abstentions will have no impact on the outcome of such proposal so long as a quorum exists.

A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to such proposal and has not received voting instructions from the beneficial owner of the shares. Broker non-votes will be counted for purposes of calculating whether a quorum is present at the Annual Meeting, but will not be counted for purposes of determining the number of votes cast. Thus, a broker non-vote will make a quorum more readily attainable, but will not otherwise affect the outcome of the vote on any proposal.

What is the vote required for each proposal?

Proposal	Vote Required	Broker Discretionary Voting Allowed?
Proposal 1 — Election of three Class II directors	Plurality of voting power of shares present and entitled to vote	No
Proposal 2 — Ratification of the appointment of independent registered public accounting firm	Majority of voting power of shares present and entitled to vote	Yes

With respect to Proposal 1, you may (i) vote FOR all nominees, (ii) WITHHOLD your vote as to all nominees, or (iii) vote FOR all nominees except for those specific nominees from whom you WITHHOLD your vote. The two nominees receiving the most FOR votes will be elected. You may not cumulate votes in the election of directors. Any shares not voted FOR a particular nominee (whether as a result of a vote being withheld or a broker non-vote) will not be counted in such nominee's favor and will have no effect on the outcome of the election. If you WITHHOLD your vote as to all nominees, you will be deemed to have ABSTAINED from voting on Proposal 1, and such abstention will have no effect on the outcome of the vote.

With respect to Proposal 2, you may vote FOR, AGAINST or ABSTAIN. If you ABSTAIN from voting on Proposal 2, the abstention will have the same effect as a vote AGAINST the proposal.

Who will count the votes?

Broadridge Financial Solutions, Inc. ("Broadridge") has been engaged to receive and tabulate stockholder votes. Broadridge will also certify the election results and perform any other acts required by the Delaware General Corporation Law.

Who is paying for the costs of this proxy solicitation?

We will bear the entire cost of proxy solicitation, including the preparation, assembly, printing, mailing and distribution of the proxy materials. Copies of solicitation materials will also be made available upon request to brokerage houses and other nominees holding shares in their names that are beneficially owned by others to forward to such beneficial owners. The original solicitation of proxies may be supplemented by solicitation by telephone, electronic communication, or other means by our directors, officers, employees or agents. No additional compensation will be paid to these individuals for any such services, although we may reimburse such individuals for their reasonable out-of-pocket expenses in connection with such solicitation. We do not plan to retain a proxy solicitor to assist in the solicitation of proxies.

How can I find the results of the Annual Meeting?

Preliminary results will be announced at the Annual Meeting. Final results will be published in a Current Report on Form 8-K to be filed with the SEC within four business days after the Annual Meeting. If the official results are not available at that time, we will provide preliminary voting results in the Current Report on Form 8-K and will provide the final results in an amendment to the Current Report on Form 8-K as soon as they become available.

CORPORATE GOVERNANCE

Overview

Our board of directors oversees our Chief Executive Officer and other senior management in the competent and ethical operation of our business and affairs and ensures that the long-term interests of our stockholders are being served. The key practices and procedures of our board of directors are outlined in our Corporate Governance Principles, which are available on the Investor Relations page of our website at investors.cornerstoneondemand.com, under “Governance.”

Leadership Structure

Pursuant to our Corporate Governance Principles, the roles of Chairman and Chief Executive Officer may be filled by the same or different individuals. This allows our board of directors flexibility to determine whether the two roles should be combined or separated based upon our needs and our board of directors’ assessment of our leadership from time to time. Our board of directors currently believes that it is in the best interests of the Company and our stockholders for Adam Miller, our Chief Executive Officer, to serve as our Chairman, and R. C. Mark Baker, an independent director, to serve as our Lead Independent Director.

Our board of directors believes that having an employee director fill the role of Chairman and a non-employee director fill the role of Lead Independent Director provides the appropriate balance in our leadership at this time. Combining the roles of Chairman and Chief Executive Officer promotes unified leadership and direction, contributing to operational effectiveness and efficiencies that facilitate the implementation of strategic initiatives and business plans to optimize stockholder value. In contrast, to facilitate communication between management and the independent members of our board of directors, the Lead Independent Director is authorized to schedule and prepare agendas for meetings or closed sessions without the presence of employee directors or members of management. The Lead Independent Director is also responsible for communicating with our Chief Executive Officer, disseminating information to the rest of our board of directors in a timely manner, and raising issues with management on behalf of the independent directors when appropriate.

Our board of directors, including each of its committees, also has full access to members of management, either as a group or individually, and to Company information deemed necessary to fulfill the obligations of our board of directors and its committees.

The Board’s Role in Risk Oversight

Our management has day-to-day responsibility for identifying risks facing the Company, including implementing suitable mitigating processes and controls, assessing risks in relation to the Company’s strategies and objectives, and appropriately managing risks in a manner that serves the best interests of the Company, its stockholders, and other stakeholders. Our board of directors is responsible for ensuring that an appropriate culture of risk management exists within the Company, overseeing its aggregate risk profile, and assisting management in addressing specific risks.

Generally, various committees of our board of directors oversee risks associated with their respective areas of responsibility and expertise. For example, our Audit Committee oversees, reviews and discusses with management and our independent registered public accounting firm, our major financial reporting and accounting risk exposures and the steps management has taken to monitor and mitigate those exposures. Our Compensation Committee oversees risks associated with our compensation policies, plans and practices. Our Nominating and Corporate Governance Committee oversees the management of risks associated with director independence and board of directors' composition and organization. Management and other employees report to our board of directors and/or relevant committee(s) from time to time on risk-related issues.

Director Independence

Under the listing standards of The NASDAQ Stock Market, or NASDAQ, independent directors must comprise a majority of a listed company's board of directors. In addition, the listing standards of NASDAQ require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating and corporate governance committees be independent. Under the listing standards of NASDAQ, a director will only qualify as an "independent director" if, in the opinion of that company's board of directors, the director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Audit committee members must also satisfy the additional independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the listing standards of NASDAQ. In addition, compensation committee members must also satisfy the additional independence criteria set forth in Rule 10C-1 under the Exchange Act and the listing standards of NASDAQ.

Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, including family relationships, our board of directors has determined that neither Ms. Salen nor Messrs. Baker, Burlingame, Cavanaugh, McGeever or Payne, representing six of the seven directors who will serve on our board of directors if Proposal 1 (election of directors) is approved by our stockholders, has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of such director and that each of these directors is "independent" as that term is defined under the listing standards of NASDAQ. Our board of directors also determined that Messrs. Burlingame and McGeever and Ms. Salen, who comprise our Audit Committee, Messrs. Baker, Burlingame and Cavanaugh, who comprise our Compensation Committee, and Messrs. Baker, Cavanaugh and Payne, who comprise our Nominating and Corporate Governance Committee, satisfy the independence standards for those committees established by applicable SEC rules and the listing standards of NASDAQ. In making this determination, our board of directors considered the relationships that each non-employee director has with us and all other facts and circumstances our board of directors deemed relevant in determining their independence.

Director Nomination Process

Candidates for nomination to our board of directors are selected by our Nominating and Corporate Governance Committee in accordance with its charter, our certificate of incorporation and bylaws, and our Corporate Governance Principles. While there are no specific minimum qualifications for director nominees, the ideal candidate should exhibit qualifications that will increase overall effectiveness of our board of directors, including independence, previous experience as a director or executive with other successful companies, the ability to meet other requirements under applicable rules (e.g., the requirement that members of our Audit Committee have an appropriate level of financial literacy and expertise), a high level of personal and professional ethics and integrity, proven achievement and competence in the nominee's field, skills that are complementary to those of existing members of our board of directors, the ability to assist and support management and make significant contributions to our success, and an understanding of the fiduciary duties belonging to members of our board of directors and the commitment of time and energy necessary to diligently fulfill those duties. In evaluating the suitability of a director candidate, our Nominating and Corporate Governance Committee considers factors such as character, integrity, judgment, diversity, age, independence, skills, education, expertise, business acumen, business experience, length of service, understanding of our business, potential conflicts of interest and other commitments.

Our Nominating and Corporate Governance Committee makes an effort to ensure that our board of directors' composition reflects a broad diversity of experience, professions, skills, viewpoints, personal traits and backgrounds. However, our Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity, does not assign specific weights to particular criteria, and does not believe that any specific criterion is necessarily applicable to all prospective nominees. Instead, when reviewing a candidate, our Nominating and Corporate Governance Committee reviews the candidate's qualifications in light of the specific needs of our board of directors at that time.

To date, our Nominating and Corporate Governance Committee has relied on its network of contacts to compile a list of potential candidates, but it is authorized to retain recruiting professionals to assist in identifying and evaluating candidates for consideration as needed. After conducting appropriate inquiries into the backgrounds and qualifications of potential candidates and reviewing the candidates in light of the factors discussed above, our Nominating and Corporate Governance Committee selects nominees for recommendation to our board of directors by majority vote. Based on our Nominating and Corporate Governance Committee's recommendation, our board of directors selects director nominees and recommends them for election by our stockholders. Our board of directors may also fill any vacancies that arise between annual meetings of stockholders.

Stockholder Recommendations and Nominations of Candidates for Election to the Board of Directors

Our Nominating and Corporate Governance Committee will consider director candidates who are timely recommended by stockholders who have continuously held at least 100,000 shares of our common stock for at least 12 months prior to the submission of the recommendation. The recommendation must include the candidate's name, home and business contact information, detailed biographical data, relevant qualifications, a signed letter from the candidate confirming willingness to serve, information regarding any relationships between the candidate and the Company and evidence of the recommending stockholder's ownership of the requisite number of shares of our common stock during the 12-month period referenced above. There are no differences in the manner in which our Nominating and Corporate Governance Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder or otherwise.

A stockholder of record can nominate a candidate directly for election to our board of directors by complying with the procedures in Section 2.4 of our bylaws and the rules and regulations of the SEC. Any eligible stockholder who wishes to submit a nomination should review the requirements in our bylaws for nominations by stockholders. Any nomination should be sent in writing to our General Counsel at Cornerstone OnDemand, Inc., 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404. Notice must be received by us no earlier than February 13, 2017 and no later than March 15, 2017 for our 2017 Annual Meeting of Stockholders. The notice must state the information required by Section 2.4 of our bylaws and otherwise must comply with applicable federal and state law.

Code of Business Conduct and Ethics

We have adopted a code of business conduct that is applicable to all of our employees, officers and directors, including our chief executive and senior financial officers. Our Code of Business Conduct and Ethics is available on the Investor Relations page of our website at investors.cornerstoneondemand.com, under "Governance."

Communication with the Board of Directors

Any stockholder wishing to communicate with any of our directors may write to the director, c/o General Counsel, at Cornerstone OnDemand, Inc., 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404. Our General Counsel will review all incoming stockholder communications (except for mass mailings, product complaints or inquiries, job inquiries, business solicitations and patently offensive or otherwise inappropriate materials) and, if appropriate, forward such communications to the appropriate director(s) or, if none is specified, to the Chairman of the board of directors. This procedure does not apply to stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act. Our Nominating and Corporate Governance Committee reviews and approves the stockholder communication process periodically in an effort to enable an effective method by which stockholders can communicate with our board of directors.

BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Board and Committee Meetings

Our board of directors and its committees meet throughout the year on a set schedule, hold special meetings as needed, and act by written consent from time to time. Our board of directors met five times during 2015. During 2015, each director attended at least 75% or more of the aggregate of (a) the total number of meetings of our board of directors (held during the period for which he or she served as a director) and (b) the total number of meetings held by all committees of our board of directors on which he or she served (during the periods that he or she served).

While we do not mandate attendance by members of our board of directors at our annual meetings of stockholders, we do have a formal policy encouraging our directors to attend. Four directors attended our 2015 Annual Meeting of Stockholders, either in person or telephonically.

The following table sets forth the three standing committees of our board of directors, the current members of each committee and the number of meetings held by each committee in 2015:

Name of Director	Audit	Compensation	Nominating and Corporate Governance
R. C. Mark Baker		ü	ü
Harold W. Burlingame	ü	ü (Chair)	
Robert Cavanaugh		ü	ü
James McGeever	ü (Chair)		
Joseph P. Payne			ü (Chair)
Kristina Salen	ü		
Number of Meetings:	5	3	1

Committees of our Board of Directors

Our board of directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each of which has the composition and the responsibilities described below. Our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee all operate under charters approved by our board of directors, which charters are available on the Investor Relations page of our website at investors.cornerstoneondemand.com, under “Governance.”

Audit Committee. Our Audit Committee oversees our corporate accounting and financial reporting process and assists our board of directors in monitoring our financial systems and our legal and regulatory compliance. Our Audit Committee is responsible for, among other things:

- overseeing the audit of our financial statements;
- overseeing the organization and performance of our internal audit function and our internal accounting and financial controls;
- appointing our independent registered public accounting firm and reviewing and overseeing its qualifications, independence and performance; and
- overseeing the management of risks associated with our financial reporting, accounting and auditing matters.

Our Audit Committee consists of Messrs. Burlingame and McGeever and Ms. Salen, with Mr. McGeever serving as chairman. Our board of directors has determined that each member of our Audit Committee meets the financial literacy requirements under the listing standards of NASDAQ and the SEC rules and regulations, and Mr. McGeever qualifies as our Audit Committee financial expert as defined under SEC rules and regulations. Our board of directors has concluded that the composition of our Audit Committee meets the requirements for independence under the current listing standards of NASDAQ and SEC rules and regulations. We believe that the functioning of our Audit Committee complies with the applicable requirements of NASDAQ and SEC rules and regulations. The Audit Committee met five times during 2015.

Compensation Committee. Our Compensation Committee oversees our corporate compensation policies, plans and programs. Our Compensation Committee is responsible for, among other things:

- assisting our board of directors with respect to oversight of executive compensation, including compensation of our Chief Executive Officer;
- approving and evaluating compensation plans, policies and programs related to executive compensation;
- evaluating and making recommendations to our board of directors regarding director compensation;
- administering our equity compensation plans; and
- reviewing and discussing with management the risks arising from our compensation policies and practices that are reasonably likely to have a material adverse effect on our business.

Our Compensation Committee consists of Messrs. Baker, Burlingame and Cavanaugh, with Mr. Burlingame serving as chairman. Our board of directors has determined that each member of our Compensation Committee is independent within the meaning of the listing standards of NASDAQ and SEC rules and regulations, including Rule 10C-1 under the Exchange Act, is a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, and is an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. We believe that the composition of our Compensation Committee meets the requirements for independence under, and the functioning of our Compensation Committee complies with, any applicable listing standards of NASDAQ and SEC rules and regulations. Our Compensation Committee met three times during 2015. For additional information regarding the procedures for the consideration and determination of executive compensation, see “Compensation Discussion and Analysis” below.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee oversees and assists our board of directors in reviewing and recommending corporate governance policies and nominees for election to our board of directors. Our Nominating and Corporate Governance Committee is responsible for, among other things:

- reviewing and making recommendations regarding corporate governance matters;
- evaluating and making recommendations regarding the organization and governance of our board of directors and its committees;
- assessing the performance of members of our board of directors and making recommendations regarding committee assignments;
- recommending desired qualifications for membership on our board of directors and conducting searches for potential members of our board of directors; and
- reviewing our Code of Business Conduct and Ethics and considering questions of possible conflicts of interest.

Our Nominating and Corporate Governance Committee consists of Messrs. Baker, Cavanaugh and Payne, with Mr. Payne serving as chairman. Our board of directors has determined that each of Messrs. Baker, Cavanaugh and Payne are independent within the meaning of the listing standards of NASDAQ. We believe that the composition of our Nominating and Corporate Governance Committee meets the requirements for independence under, and the functioning of our Nominating and Corporate Governance Committee complies with, any applicable listing standards of NASDAQ and SEC rules and regulations. Our Nominating and Corporate Governance Committee met one time in 2015. For additional information regarding our Nominating and Corporate Governance Committee, see “Corporate Governance — Director Nomination Process” above.

Our board of directors may from time to time establish other committees.

Director Compensation

The following table sets forth information concerning compensation paid or accrued for services rendered to us by non-employee members of our board of directors for the year ended December 31, 2015. Adam Miller, our Chief Executive Officer, does not receive additional compensation for his service as a director.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$)(1)(2)	Stock Awards (\$)(1)(2)	Total (\$)
Current non-employee directors:				
R. C. Mark Baker	\$ 60,500	\$ 200,288	\$ 77,292	\$ 338,080
Harold W. Burlingame	\$ 50,000	\$ 200,288	\$ 77,292	\$ 327,580
Robert Cavanaugh(3)	\$ 26,934	\$ 573,020	\$ 217,399	\$ 817,353
James McGeever	\$ 55,000	\$ 200,288	\$ 77,292	\$ 332,580
Joseph P. Payne	\$ 42,234	\$ 200,288	\$ 77,292	\$ 319,814
Kristina Salen	\$ 40,000	\$ 200,288	\$ 77,292	\$ 317,580
S. Steven Singh(4)	\$ 9,375	\$ —	\$ —	\$ 9,375

(1)

Reflects the aggregate grant date fair value of stock options and restricted stock units computed in accordance with FASB ASC Topic 718. The assumptions used in the valuation of these awards are set forth in the notes to our consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016. These amounts do not necessarily correspond to the actual value that may be realized by the director.

(2) The aggregate number of shares subject to stock options and restricted stock units outstanding at December 31, 2015 for each non-employee director is as follows:

Name	Aggregate Number (#) of Stock Options Outstanding as of December 31, 2015	Aggregate Number (#) of Restricted Stock Units Outstanding as of December 31, 2015	Total Number (#) of Shares Subject to Outstanding Awards
R. C. Mark Baker	63,035	2,350	65,385
Harold W. Burlingame	125,355	2,350	127,705
Robert Cavanaugh	45,000	7,050	52,050
James McGeever	102,081	2,350	104,431
Joseph P. Payne	35,400	3,183	38,583
Kristina Salen	27,000	4,350	31,350

(3) Effective as of April 20, 2015, Mr. Cavanaugh was elected to our board of directors.

(4) Effective as of January 31, 2015, Mr. Singh resigned from our board of directors.

Non-employee directors receive an annual retainer of \$35,000. Our Lead Independent Director is paid an additional annual retainer of \$20,000. The chair of our Audit Committee is paid an additional annual retainer of \$20,000, and members of our Audit Committee other than the chair are paid an additional annual retainer of \$5,000. The chair of our Compensation Committee is paid an additional annual retainer of \$10,000, and members of our Compensation Committee other than the chair are paid an additional annual retainer of \$3,000. The chair of our Nominating and Corporate Governance Committee is paid an additional annual retainer of \$5,000, and members of our Nominating and Corporate Governance Committee other than the chair are paid an additional annual retainer of \$2,500.

In addition to the compensation described above, each new non-employee director who joins our board of directors, upon election to our board of directors, is granted an initial stock option award to purchase shares of our common stock and an initial restricted stock unit award covering shares of our common stock with a combined target value of \$400,000 using Black-Scholes methodology, with approximately 2/3 of the target value granted in the form of a stock option and 1/3 of the target value granted in the form of restricted stock units. The exercise price of each such option will be equal to the fair market value of our common stock on the date of grant. Each initial stock option award will vest as to 1/3 of the shares subject to the option on the first anniversary of the date the director joined our board of directors, and the remaining shares will vest monthly in equal increments over the following two years, subject to the director's continued service as of each such date. Each initial restricted stock unit award will vest over a three-year period with 1/3 of the restricted stock units scheduled to vest on each of the first three anniversaries of the grant date, subject to the director's continued service as of each such date.

In addition, all non-employee directors will receive, on the date of each of our annual stockholder meetings, an annual stock option award to purchase shares of our common stock and an annual restricted stock unit award covering shares of our common stock with a combined target value of \$200,000 using Black-Scholes methodology (with the calculation of the value of such awards to be determined on the same day that the Compensation Committee approves the awards), with approximately 2/3 of the target value granted in the form of stock options and 1/3 of the target value granted in the form of restricted stock units. The exercise price of each such option will be equal to the fair market value of our common stock on the date of grant. Each annual stock option award and annual restricted stock unit award will vest on the first anniversary of the date of grant, subject to the director's continued service as of such date.

PROPOSAL 1

ELECTION OF DIRECTORS

General

Our certificate of incorporation provides for a classified board of directors. Each person elected as a Class II director at the Annual Meeting will serve for a three-year term expiring on the date of the 2019 annual meeting of stockholders and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal.

Our board of directors has nominated Messrs. Burlingame and McGeever for election as Class II directors at the Annual Meeting. The two nominees receiving the highest number of votes will be elected at the Annual Meeting. In the event a nominee is unable or declines to serve as a director, the proxies will be voted at the Annual Meeting for any nominee who may be designated by our board of directors to fill the vacancy. As of the date of this proxy statement, our board of directors is not aware of any nominee who is unable or will decline to serve as a director. Each Class II director nominee is currently a director of the Company and is standing for re-election.

Information as of March 31, 2016 regarding our Class II nominees and other directors who will continue to serve on our board of directors after the Annual Meeting is set forth below:

Name	Age	Position	Director Since
Class I Director Nominees (term expires 2018)			
Joseph P. Payne	51	Director	2013
Kristina Salen	44	Director	2014
Robert Cavanaugh	47	Director	2015
Class II Directors			
Harold W. Burlingame	75	Director	2006
James McGeever	49	Director	2010
Class III Directors (term expires 2017)			
Adam L. Miller	46	President and Chief Executive Officer, Director(1)	1999
R. C. Mark Baker	69	Director(2)	2003

(1)Chairman of our board of directors

(2)Lead Independent Director

There is no family relationship among any of the nominees, directors and/or any of our executive officers. Our executive officers serve at the discretion of our board of directors. Further information about our directors, including each of the Class II director nominees, is provided below.

Adam L. Miller founded the Company and has been our President and Chief Executive Officer and a member of our board of directors since May 1999. In addition to strategy, sales and operations, Mr. Miller has led our product development efforts since our inception. Prior to founding Cornerstone, Mr. Miller was an investment banker with Schroders plc, a financial services firm. Since its formation, Mr. Miller has served as the Chairman of the Cornerstone OnDemand Foundation, which leverages Cornerstone's expertise, solutions and partner ecosystem to help empower communities. Mr. Miller also writes and speaks extensively about talent management and on-demand software. Mr. Miller holds a J.D. from the School of Law of the University of California, Los Angeles (UCLA), an M.B.A. from UCLA's Anderson School of Business, a B.A. from the University of Pennsylvania (Penn) and a B.S. from Penn's Wharton School of Business. He also earned C.P.A. (inactive) and Series 7 certifications. We believe that Mr. Miller possesses specific attributes that qualify him to serve as a member of our board of directors, including his operational expertise and the historical knowledge and perspective he has gained as our Chief Executive Officer and one of our founders.

R. C. Mark Baker has been a member of our board of directors since October 2003. Mr. Baker is the founder of Touchstone Systems, Inc., a company that supplies voice over internet protocol, or VoIP, international voice termination services and hosted OSS services, and has served as its Chief Executive Officer since September 2003. Mr. Baker has a long history of working in the telecommunications industry, serving as an officer or director of various companies including Ionex Telecommunications, Inc., Birch Telecommunications, USA Global Link GmbH, Keyon Communications Holdings, Inc. and British Telecom, and held various senior positions with AT&T Corp., including Executive Vice President International, Vice President and General Manager-International Services, Vice President Strategy, as well serving as a member of AT&T's senior management team. Mr. Baker has also served as a director of British Telecom Satellite Services, British Telecom Marine, NIS (Japan), McCaw Cellular USA, British Telecom Syncordia, AT&T Submarine Systems, Alestra (Mexico) and Telecom Italia. We believe that Mr. Baker possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience leading and managing technology companies and his past service as a director of other technology companies.

Harold W. Burlingame has been a member of our board of directors since March 2006. From December 2004 to July 2010, Mr. Burlingame served as Chairman of ORC Worldwide, Inc., a provider of human resource knowledge and solutions. In addition, since June 1998, Mr. Burlingame has served as a director of UniSource Energy Corporation, an owner of electric and gas service providers. Previously, Mr. Burlingame served as Executive Vice President of Human

Resources for AT&T Corp. and as Senior Executive Advisor for AT&T Wireless. Mr. Burlingame received his B.A. in Communications from Muskingum College. We believe that Mr. Burlingame's extensive experience in human resources and management qualifies him to serve as a member of our board of directors.

Robert Cavanaugh has been a member of our board of directors since April 2015. Mr. Cavanaugh has served as the President of Field Operations of Accolade, Inc., a private company that operates a consumer healthcare engagement platform, since November 2015. Prior to this role, Mr. Cavanaugh served in several roles, including as President Worldwide Enterprise, SMB & Government, at Concur Technologies, Inc., a provider of integrated travel and expense management solutions, from 1999 to April 2015. Prior to joining Concur Technologies, Inc., Mr. Cavanaugh held consulting and implementation management positions at Seeker Software and Ceridian Corporation. Mr. Cavanaugh holds a B.S. in Business Administration from Norwich University. We believe that Mr. Cavanaugh possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience managing technology companies, in the software industry and with SaaS.

James McGeever has been a member of our board of directors since June 2010. Mr. McGeever has served as the Chief Operating Officer of NetSuite Inc., a provider of business management applications, since July 2010. Prior to this role, Mr. McGeever served as NetSuite's Chief Financial Officer from June 2000 to June 2010 and as its Director of Finance from January 2000 to June 2000. Prior to joining NetSuite, Mr. McGeever was the Controller of Clontech Laboratories, Inc., a biotechnology company, from 1998 to 2000, and the Corporate Controller at Photon Dynamics, Inc., a capital equipment maker, from 1994 to 1998. Mr. McGeever holds a B.Sc. from the London School of Economics. We believe that Mr. McGeever possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience in the management of technology companies and his experience in the software industry and with SaaS.

Joseph P. Payne has been a member of our board of directors since September 2013. Mr. Payne has served as President and Chief Executive Officer of Code42 Software, Inc., a private company that specializes in endpoint data protection and security for businesses and enterprises, since July 2015. Prior to this role, Mr. Payne served as Chief Executive Officer and a member of the board of directors of Eloqua, Inc., a marketing automation company, from June 2007 until its acquisition by Oracle Corporation in February 2013. Mr. Payne also served as Eloqua's chairman of the board of directors from August 2011 until February 2013, its president from June 2007 to September 2012, and as its interim president and Chief Executive Officer from January 2007 to June 2007. In October 2006, Mr. Payne served as president of Qualys, Inc., a provider of cloud security and compliance solutions. From April 2005 to October 2006, Mr. Payne served as president and Chief Operating Officer of iDefense, a VeriSign, Inc. company. Mr. Payne currently serves on the board of directors of Code42, and previously served on the board of directors of Dealertrack Technologies, Inc. until it was acquired in October 2015. Mr. Payne holds an A.B. in Public Policy and an M.B.A. from Duke University. We believe Mr. Payne possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience leading and managing technology companies and his service as a director of other technology companies.

Kristina Salen has been a member of our board of directors since July 2014. Ms. Salen has served as Chief Financial Officer of Etsy, Inc., an online marketplace, since 2013. Prior to this role, Ms. Salen led the media, Internet, and telecommunications research group of FMR LLC d/b/a Fidelity Investments, a multinational financial services company, from January 2006 to January 2013. Prior to Fidelity, Ms. Salen worked in various financial and executive roles at several companies, including Oppenheimer Capital LLC, an investment firm, from June 2002 to December 2005; Merrill Lynch & Co., Inc., a financial services corporation acquired by Bank of America Corporation in January 2009, from June 1997 to June 2001; Lazard Freres & Co. LLC, a global financial advisory and asset management firm, from April 1996 to June 1997; and SBC Warburg, an investment bank, from December 1994 to April 1996. Ms. Salen holds a B.A. in Political Science from Vassar College and an M.B.A. from Columbia University. We believe Ms. Salen possesses specific attributes that qualify her to serve as a member of our board of directors, including her financial expertise and her experience leading and managing technology companies.

Vote Required

The election of Class II directors requires a plurality vote of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Broker non-votes will have no effect on this proposal.

Recommendation of the Board

Our board of directors recommends a vote FOR the two Class II director nominees to serve until the 2019 annual meeting of stockholders and until their successors are duly elected and qualified.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Policies and Procedures for Related Party Transactions

We have adopted a formal written policy that our executive officers, directors, holders of more than 5% of any class of our voting securities, and any member of the immediate family of and any entity affiliated with any of the foregoing persons, are not permitted to enter into a related party transaction with us, in which the amount involved exceeds \$120,000, without the approval or ratification of our Audit Committee. In approving or rejecting any such proposal, our Audit Committee will take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction.

Related Party Transactions

In addition to the compensation arrangements discussed in the section titled "Executive Compensation," in fiscal 2015, we were party to the following transactions in which the amount involved exceeded or will exceed \$120,000, and in which any director, executive officer or holder of more than 5% of any class of our voting stock, or any member of the immediate family of or entities affiliated with any of them may be deemed to have or have had a direct or indirect material interest.

Subscription Services Agreements

James McGeever, a member of our board of directors since June 2010, is the Chief Operating Officer of NetSuite Inc. In December 2009, we entered into a subscription services agreement with NetSuite, under which we licensed the use of NetSuite's enterprise resource planning software to manage portions of our financial systems. In fiscal 2015, we incurred expenses of approximately \$0.6 million to NetSuite in license, maintenance and support fees under the terms of the agreement. In addition, we expect to pay approximately \$0.6 million in such fees for fiscal 2016.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware General Corporation Law.

Transactions with Cornerstone OnDemand Foundation

We helped form the Cornerstone OnDemand Foundation, or the Foundation, in 2010. The Foundation's board of directors has five members, including Adam Miller, our Chief Executive Officer. None of the other four directors is an officer or employee of the Company. In fiscal 2015, we provided at no charge certain resources to the Foundation, with approximate value of \$2.9 million.

SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 31, 2016 with respect to the beneficial ownership of our common stock by (i) each person we believe beneficially holds more than 5% of the outstanding shares of our common stock based solely on our review of SEC filings; (ii) each director and nominee for director; (iii) each named executive officer listed in the table entitled "Summary Compensation Table" under the section entitled "Executive Compensation"; and (iv) all directors and executive officers as a group. The information provided in the table is based on the Company's records, information filed with the SEC and information provided to us, except where otherwise noted.

As of March 31, 2016, 54,997,963 shares of our common stock were issued and outstanding. In computing the number of shares of stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares subject to options held by that person that are currently exercisable or exercisable within 60 days of March 31, 2016, and shares issuable upon the vesting of restricted stock units within 60 days of March 31, 2016. However, we did not deem these shares to be outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, all persons named as beneficial owners of our common stock have sole voting power and sole investment power with respect to the shares indicated as beneficially owned. Unless otherwise noted below, the address of each stockholder listed on the table is c/o Cornerstone OnDemand, Inc., 1601 Cloverfield Blvd., Suite 620 South, Santa Monica, California 90404.

Name and address of beneficial owner	Shares of Common Stock Beneficially Owned(1)	Percentage
5% Stockholders:		
Wasatch Advisors, Inc.(2)	5,474,147	10.0 %
The Vanguard Group, Inc.(3)	3,399,930	6.2 %
Praesidium Investment Management Company, LLC(4)	3,269,454	5.9 %
BlackRock, Inc.(5)	2,872,953	5.2 %

Named executive officers and directors:

Contract. Contract revenue consists of fees generated from license, services and maintenance revenue from those transactions for which we determined to change the accounting from revenue recognition under SOP 97-2 to contract accounting under SOP 81-1 in connection with the 2003 restatement of our consolidated financial statements. Contract revenues decreased \$50.6 million, or 90%, for the three months ended March 31, 2004 compared to the same period in 2003. The decrease in contract revenue during the 2004 period is a result of the lower level of deferred contract revenue remaining to be recognized and the occurrence of fewer events which would allow the recognition of these revenues. As of March 31, 2004, the deferred contract revenue balance was \$121.5 million. While we can provide no assurance as to whether or when we will be able to recognize such revenue, we expect contract revenues to increase in the second quarter of 2004 over the amount that was recorded in the first quarter of 2004.

Services. Services revenue consists of fees generated by providing services to customers, including consulting and training. Services revenue decreased \$10.4 million, or 29%, during the three months ended March 31, 2004 compared to the same period in 2003. The decrease in services revenue during the 2004 period was primarily due to the lower volume of license sales, which led to fewer implementations, and competitive rate pressures on consulting engagements.

During the three months ended March 31, 2004, we continued to see downward trends in consulting rates due in part to pressure from offshore competition and the reduced information technology spending of our customers. Additionally, the increased use of our consultants in India has caused our global blended consulting rates to continue to decrease during 2004. There can be no assurance that the rates we charge for consulting and implementation services will improve, or even remain at current levels. The market for information technology consulting services is challenging and we are affected by these market conditions. Accordingly, we expect services revenue to continue to decline unless and until we experience a sustained increase in our software product licenses. We also expect that services revenue will continue to fluctuate on a quarter-to-quarter basis, as revenue from the implementation of software is not generally recognized in the same period as the related license revenue. In any period, services revenue is dependent on a variety of factors, including:

the volume of license transactions closed during the current and preceding periods;

our customers on previous software versions upgrading to a more recent version;

customer decisions regarding implementations of licensed software, including utilization of internal resources or third-party systems integration firms;

the number of our internal service providers and consultants actively engaged on billable projects;

the timing of milestone acceptance for engagements contractually requiring customer sign-off; and

the timing of cash payments when collectibility is uncertain.

Reimbursable Expenses. The decrease in reimbursable expenses during the three months ended March 31, 2004 as compared to the comparable period in 2003 is consistent with the decrease in our services revenues in the three months ended March 31, 2004 as compared to the comparable period in 2003. These costs will generally fluctuate in direct relation to our services revenues.

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Maintenance. Maintenance revenue consists of fees generated by providing software maintenance, upgrades and support to customers, such as telephone support and new releases of software and updated user documentation. Maintenance revenue decreased \$3.3 million, or 10%, for the three months ended March 31, 2004, compared to the same period in 2003. The decrease in maintenance revenue during the 2004 period resulted from a continued decline in both the number and dollar amount of maintenance renewals mainly due to cost cutting efforts by our customers, less favorable renewal terms and lower volumes of software license and development services sales.

There can be no assurance that the number of maintenance renewals will improve, or even remain at current levels. We expect maintenance revenue to continue to decline unless and until we experience a sustained increase in the licensing of our software.

International Revenue. Our international revenues, included in the categories discussed above, are primarily generated from customers located in Europe, Asia and Canada. International revenue totalled \$32.5 million, or 39% of total revenue, during the three months ended March 31, 2004; and \$48.0 million, or 30% of total revenue, during the comparable period in 2003. The decrease in international revenue during the 2004 period, was the result of deal execution problems, reduction in sales and marketing capacity, increased competition and related pricing pressures. Our recent financial performance, negative cash flow, the 2003 restatement of our consolidated financial statements, the related SEC investigation and securities class action lawsuits and the de-listing of our common stock from The NASDAQ National Market have also caused our international customers and prospects to voice concerns about our continued financial viability, which has contributed to our revenue decline. Despite our efforts to generate demand and develop growth, our success has been limited and our results and outlook have deteriorated and there can be no assurance that our business will stabilize or that we will be able to develop revenue growth.

During the periods presented, no individual customer accounted for more than 10% of total revenues.

Costs of Revenues

The following table sets forth cost of revenues and the gross margins of selected items reflected in our Condensed Consolidated Statements of Operations. The quarter-to-quarter comparisons of financial results are not necessarily indicative of future results.

(in thousands)	Three Months Ended	Gross Margin	Three Months Ended	Gross Margin
	March 31, 2004		March 31, 2003	
Software licenses	\$3,177	74%	\$ 283	99%
Development services	6,606	0%	6,221	33%
Contract	106	98%	7,197	87%
Services and maintenance	29,307	48%	33,578	52%

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Reimbursable expenses	2,670	0%	3,196	0%
Amortization of acquired technology	145		145	
	<u> </u>		<u> </u>	
Total cost of revenues	\$ 42,011		\$ 50,620	
	<u> </u>		<u> </u>	

Cost of Software Licenses. Cost of software licenses consists of:

Commissions paid to non-customer third parties in connection with joint marketing and other related agreements. Such commissions are expensed when the associated revenue transactions are recognized;

Royalty fees associated with third-party software utilized with our technology. Such royalties are generally expensed when the products are shipped; however, royalties associated with fixed cost arrangements are generally expensed over the period of the arrangement;

Costs related to user documentation;

Costs related to reproduction and delivery of software;

Provisions to our reserve for estimated costs to service customer claims. We accrue for customer claims on a case-by-case basis.

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Cost of software licenses increased \$2.9 million, or 1023%, for the three months ended March 31, 2004 compared to the same period in 2003. During the 2003 period, we reversed costs of approximately \$2.4 million related to customer claim accruals that were no longer necessary. Excluding the effects of this reversal, we experienced a decrease in our software license margin from 86% during the three months ended March 31, 2003 to 74% during the three months ended March 31, 2004, which is caused by the fixed cost portion of our cost of license becoming a larger portion of our total cost of license. We expect the gross margin on software license sales to remain relatively consistent over the near term.

Cost of Development Services. The cost of development services includes the salary and other related costs of the employees or third parties that provide our services to customize or enhance the software for the customer. Cost of development services increased \$0.4 million, or 6% for the three months ended March 31, 2004 compared to the same period in 2003. The increase in cost of development services is directly related to the increase in the bookings of development services projects during 2003 and 2004. The gross margin on this business will vary as result of the timing of revenue recognition, which in some arrangements is impacted by the attainment of contractual milestones. During the 2004 period, the gross margin on this business decreased from 33% for the three months ended March 31, 2003 to breakeven as a result of the timing of revenue recognition, our agreement to perform certain strategic development services projects at a lower margin to offset the cost of our planned product development and pressures on the rates for our services. Additionally, we have been incurring losses on a development services contract with Shell Global Solutions International B.V. Expenses have been recorded as incurred, however, the revenue milestones in the contract were scheduled to be met in later periods. As disclosed on April 5, 2004 on Form 8-K, the company received notice on April 1, 2004 that Shell was purporting to terminate the license and development services contract. Due to the purported termination, we expect cost of development services to decrease in the second quarter of 2004.

Cost of Contract. Cost of contract includes costs associated with those transactions for which we determined to change the accounting from revenue recognition under SOP 97-2 to contract accounting under SOP 81-1 in connection with the 2003 restatement of our consolidated financial statements. Cost of contract decreased \$7.1 million, or 99%, for the three months ended March 31, 2004 compared to the same period in 2003. As of March 31, 2004, we have \$6.9 million remaining in deferred contract costs. We expect cost of contract to increase in the second quarter of 2004 over what was recorded in the first quarter of 2004.

Cost of Services and Maintenance. Cost of services and maintenance includes costs associated with providing services to customers, including implementation and training, in addition to the cost of providing software maintenance to customers such as telephone support, upgrades and updated user documentation. The total cost of services and maintenance decreased \$4.3 million, or 13%, for the three months ended March 31, 2004 compared to the same period in 2003. Service and maintenance headcount decreased 20% during the 2004 period which contributed to a significant decrease in compensation related expenses incurred by the services and maintenance organization.

Reimbursable Expenses. The decrease in reimbursable expenses during the three months ended March 31, 2004 as compared to the comparable period in 2003 is consistent with the decrease in our services revenues in the first quarter of 2004 as compared to the same quarter in 2003. These costs will generally fluctuate in direct relation to our services revenues.

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Amortization of Acquired Technology. In connection with our acquisitions in 2001 and 2000, we acquired developed technology that we offer as a part of our solutions. In accordance with applicable accounting standards, the amortization of acquired technology is included as a part of our cost of revenues because it relates to software products that are marketed to potential customers. Amortization of acquired technology remained constant at \$145,000 for the three months ended March 31, 2004 as compared to the comparable period in 2003. These costs will be completely amortized by September 30, 2004.

Table of Contents**Operating Expenses**

The following table sets forth operating expenses and the percentage of total revenue for these operating expenses in our Condensed Consolidated Statements of Operations. The quarter-to-quarter comparisons of financial results are not necessarily indicative of future results.

(in thousands)	Three Months Ended	Percent	Three Months Ended	Percent
	March 31, 2004	of Total Revenue	March 31, 2003	of Total Revenue
Sales and marketing	\$ 19,921	24%	\$ 23,649	15%
Research and development	19,691	24%	20,777	13%
General and administrative	25,461	30%	14,379	9%
Amortization of intangibles	39	0%	423	0%
Total operating expenses	\$ 65,112		\$ 59,228	

Sales and Marketing Expense. Sales and marketing expense consists primarily of personnel costs, commissions, office facilities, travel, and promotional events such as trade shows, seminars, technical conferences, advertising and public relations programs.

Sales and marketing expense decreased \$3.7 million, or 16%, for the three months ended March 31, 2004 compared to the same period in 2003. The decrease was primarily due to an 11% decrease in the average number of sales and marketing personnel between March 31, 2003 and March 31, 2004, and a decrease of approximately \$0.8 million, or 42%, in marketing expenses in the three months ended March 31, 2004 as compared to the same period in 2003.

Research and Development Expense. Research and development expense consists of costs related to development of new software products and enhancements to existing software. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of our products and general release of such software has substantially coincided. As a result, software development costs qualifying for capitalization have been insignificant; therefore, we have not capitalized any software development costs other than those recorded in connection with our acquisitions.

Research and development expenses decreased \$1.1 million, or 5%, for the three months ended March 31, 2004 compared to the same period in 2003. The decrease was caused by an 11% decrease in the number of our research and development personnel between March 31, 2003 and March 31, 2004 and the continuation of our initiative to have the majority of our development personnel located in India. As of March 31, 2004, approximately 54% of our research and

development employees were located in India.

General and Administrative Expense. General and administrative expense includes the personnel and other costs of our finance, legal, accounting, human resources, information systems and executive departments. General and administrative expense increased \$11.1 million, or 77%, for the three months ended March 31, 2004 compared to the same period in 2003. The increase in the dollar amount of general and administrative expense was primarily due to a \$10.0 million accrual recorded in the first quarter of 2004 for estimated costs relating to a possible resolution of the SEC investigation (See Note 7 Commitments and Contingencies in the accompanying Notes to Condensed Consolidated Financial Statements). Legal fees increased approximately \$3.1 million for the three months ended March 31, 2004 as compared to the same period in 2003. The \$3.1 million increase was partially offset by a 10% decrease in the average number of general and administrative personnel between March 31, 2003 and March 31, 2004.

Over the near term and perhaps for much longer, and regardless of the outcome, we expect to incur significant fees and expenses relating to the investigation currently being conducted by the SEC and our ongoing litigation, including litigation relating to the 2003 restatement of our consolidated financial statements.

Amortization of Intangibles and Impairment of Intangibles. From time to time, we have sought to supplement our product offerings through technology or business acquisitions. When an acquisition of a business is accounted for using the purchase method, the amount of the purchase price is allocated to the fair value of assets acquired, net of liabilities assumed. Any excess purchase price is allocated to goodwill. Intangible assets are amortized over their estimated useful lives, while goodwill is only written down when it is deemed to be impaired.

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Restructuring Charges

SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The statement applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination. An exit activity includes but is not limited to a restructuring which is defined as a program that is planned and controlled by management, and materially changes either, (a) the scope of a business undertaken by an enterprise, or (b) the manner in which the business is conducted .

In response to our recent operating losses, in March 2004, we initiated a global workforce reduction plan to further reduce our operating expenses and bring them in line with our current revenue levels. During March 2004, 11 employees were involuntarily terminated. The plan is expected to be finalized in the second quarter of 2004 and we currently estimate the involuntary termination of an additional 170 to 180 employees. During the first quarter of 2004, we recorded restructuring charges totalling approximately \$575,000 related to the severance payments to be paid to the 11 employees involuntarily terminated during the first quarter. We currently estimate that the finalization of our plan will result in additional restructuring expenses within the range of \$5 million to \$7 million to be recorded in the second quarter of 2004. We anticipate that this restructuring will result in a reduction in total operating expenses for the second quarter of 2004 of approximately 10% as compared to the levels we reported for the fourth quarter of 2003.

Additional details of the restructuring charge and remaining accruals are presented in Note 4 *Restructuring Charges and Adjustments* in the accompanying notes to condensed consolidated financial statements.

Non-operating Expense, Net

Non-operating expense, net, was as follows:

(in thousands)	Three Months Ended March 31,	
	2004	2003
Interest income	\$ 771	\$ 1,650
Interest expense	(4,683)	(5,767)
Foreign currency hedge and transaction losses, net	(492)	(409)
Other expense, net	(687)	(492)
Total non-operating expense, net	\$ (5,091)	\$ (5,018)

The decline in interest income over the comparable periods is primarily the result of the lower average balances of invested funds and lower market interest rates. The decrease in interest expense during the 2004 period as compared to the first quarter of 2003 resulted from the prepayment of \$60.9 million of convertible debt in June 2003.

The market interest rates on investments and the relative exchange values of foreign currencies are influenced by the monetary and fiscal policies of the governments in the countries in which we operate. The nature, timing and extent of any impact on our financial statements resulting from changes in those governments' policies are not predictable. Risks associated with market interest rates and foreign exchange rates are discussed below under the section captioned "Sensitivity to Market Risks."

Provision (Benefit) for Income Taxes

We recognized income tax expense, primarily foreign taxes, of \$0.8 million and \$1.5 million during the three months ended March 31, 2004 and 2003, respectively, representing effective income tax rates of (2.8)% in the 2004 period and 3.5% in the 2003 period.

Table of Contents**Contractual Obligations**

The following table summarizes our significant contractual obligations at March 31, 2004, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at March 31, 2004.

(In thousands)	Total	Due in					
		2004	2005	2006	2007	2008	Thereafter
Operating lease obligations (excluding restructured facilities)	\$ 68,957	\$ 16,858	\$ 16,680	\$ 11,147	\$ 8,162	\$ 6,148	\$ 9,962
Operating leases for restructured facilities	20,592	7,181	4,900	3,060	1,327	825	3,299
Sublease income related to restructured facilities	(10,918)	(2,274)	(1,949)	(1,388)	(1,183)	(825)	(3,299)
Long-term debt obligations	356,800			356,800			
Other purchase obligations ¹	21,555	7,018	6,612	3,800	3,800	325	
Total	\$ 456,986	\$ 28,783	\$ 26,243	\$ 373,419	\$ 12,106	\$ 6,473	\$ 9,962

¹ *Other purchase obligations include payments due under various types of licenses and maintenance obligations and purchase commitments.*

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

Off-Balance-Sheet Arrangements

As of March 31, 2004, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Liquidity and Capital Resources

Historically, we have financed our operations and met our capital expenditure requirements primarily through cash flows provided from operations, long-term borrowings and sales of equity securities. Our working capital deficit was \$(29.3) million at March 31, 2004 compared to positive working capital of \$10.1 million at December 31, 2003, a decrease of \$39.4 million or 390%. The decline in working capital was primarily the result of a net decrease of \$34.4 million in cash and cash equivalents, restricted cash and short-term investments, an increase in deferred revenue of \$4.1 million, a net decrease of \$2.9 million in deferred contract costs and other current assets, and an increase of \$2.4 million in accounts payable, accrued liabilities and accrued compensation, partially offset by an increase of \$4.4 million in accounts receivable.

Cash and cash equivalents were \$259.1 million at March 31, 2004, a decrease of \$29.7 million from December 31, 2003. The decrease was the result of \$16.2 million in cash used in operating activities, and \$15.2 million of cash used in investing activities, primarily \$14.7 million of cash used to purchase long-term investments, which were partially offset by \$0.4 million in cash provided by financing activities. At March 31, 2004, restricted cash totalled \$10.9 million, of which \$8.2 million was pledged as collateral for outstanding letters of credit, \$1.7 million was pledged as bank guarantees and \$1.0 million was pledged as collateral for outstanding foreign currency exchange contracts. At December 31, 2003, restricted cash totalled \$15.5 million, of which \$12.6 million was pledged as collateral for outstanding letters of credit, \$2.2 million was pledged as bank guarantees and \$0.7 million was pledged as collateral for outstanding foreign currency exchange contracts.

In addition to our cash and cash equivalents, we also maintain a portfolio of short and long-term investment securities to supplement our liquidity needs. At March 31, 2004, short and long-term investments totalled \$5.0 million and \$14.7 million, respectively. At December 31, 2003, short-term investments totalled \$5.0 million. Short-term investments consist primarily of highly rated corporate debt securities and obligations of municipalities and agencies of the U.S. government that have remaining maturities of less than one year. Long-term investments include similar debt security

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investments with remaining maturities in excess of one year but not more than two years, as well as common stock and warrants of public companies. Investments in common stock and warrants of public companies were not significant at March 31, 2004 or December 31, 2003.

On a combined basis, cash and cash equivalents, restricted cash and short and long-term investments totalled \$289.7 million at March 31, 2004 compared to \$309.4 million at December 31, 2003.

The most significant adjustments to reconcile net loss to net cash used in operations during the first quarter of 2004 were the net increase in deferred revenue of \$4.0 million, the increase in restricted cash of \$4.6 million, the net increase in accounts payable, accrued liabilities and accrued compensation of \$2.2 million, depreciation and amortization expense of \$4.0 million, the decrease in other assets of \$2.7 million, and the decrease in accounts receivable of \$3.7 million.

The most significant use of net cash used by investing activities during 2004 was the \$14.7 million purchase of debt securities.

Accounts receivable, net of allowance for doubtful accounts, increased 12% during the three months ended March 31, 2004. Days sales outstanding (DSO's) in receivables increased to 45 days as of March 31, 2004 from 34 days as of December 31, 2003. We expect DSO's to decrease in the second quarter, but will likely return to the first quarter level in subsequent quarters.

In December 1999, we issued \$350.0 million of convertible subordinated notes. The notes mature on December 15, 2006 and bear interest at a rate of 5.25% per annum (or approximately \$18.4 million per year), which is payable semi-annually in June and December. The notes are convertible at the option of the holder into shares of our common stock at a conversion price of \$38.00 per share at any time prior to maturity. We currently have the option to redeem, in cash, all or a portion of the notes that have not been previously converted. We may also from time to time seek to retire the notes through cash repurchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of December 31, 2004, none of the notes have been converted to common stock, redeemed or otherwise retired.

We maintain a \$15.0 million letter of credit line and as of March 31, 2004 \$6.5 million in letters of credit were outstanding under this line and \$8.2 million in restricted cash was pledged as collateral. As of March 31, 2004, we also had an additional \$1.7 million in restricted cash pledged as collateral for bank guarantees and \$1.0 million pledged as collateral for outstanding foreign currency exchange contracts.

We have experienced substantial negative cash flows during the three years ended December 31, 2003 and the quarter ended March 31, 2004, primarily due to sharp declines in our revenues and

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our inability to reduce our expenses to a level at or below the level of our revenues. Our continued inability to stabilize or grow revenues, control expenses and achieve positive cash flows could impair our ability to support our operations, adversely affect our liquidity and, eventually, threaten our solvency and our ability to repay our debts when they come due. In addition, we will face significant cash outlays relating to any resolution of the SEC investigation or settlement of the class action and derivative litigation, which would further impair our liquidity.

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On April 27, 2004, in an effort to improve our financial position, we entered into an agreement with R² Investments, LDC, an affiliate of Q Investments, a private investment firm and an affiliate of an existing stockholder, under which R² Investments, LDC agreed to purchase, subject to certain conditions, 100,000 shares of 2.5% Series B Convertible Preferred Stock at a purchase price of \$1,000 per share, for a total purchase price of \$100 million. Under the terms of the agreement, R² Investments, LDC will also have preemptive rights upon the issuance of certain of our securities during the three year period following the closing of the transaction. Dividends on the 2.5% Series B Preferred Stock, which may be paid in cash or kind at our discretion, will be payable semi-annually at the rate of 2.5% per year. The 2.5% Series B Preferred Stock will automatically convert into shares of our common stock on the tenth anniversary of issuance and can be converted into shares of our common stock at the option of the holder at any time prior to such tenth anniversary. If our common stock is trading over \$2.50 per share at any time after the second anniversary of the closing of the investment, we can require that the 2.5% Series B Preferred Stock be converted into common stock. The initial conversion price, which is subject to certain adjustments, will be \$.926 per share. After four years, we can force redemption by buying out the preferred stock for cash at 104% of the liquidation value of the security. The closing of the transaction is expected to occur in the second quarter of 2004, subject to the satisfaction of closing conditions including the receipt of applicable regulatory approvals.

We also anticipate that we will obtain \$22.0 million from the sale of common stock to certain individual defendants in the class action and derivative litigation, the aggregate proceeds of which would help fund the settlement of the class action and derivative litigation.

Although we expect that existing cash, cash equivalents and short-term investment balances will satisfy our working capital and capital expenditure requirements for at least the next 12 months, there can be no assurance that in the longer term we will be successful in maintaining an adequate level of cash resources, and we may be forced to act more aggressively in the future in the area of expense reduction in order to conserve cash as we look for alternative liquidity solutions.

Sensitivity to Market Risks

Foreign Currency Risk. Revenues originating outside of the United States totalled 39% and 30% of total revenues during the three months ended March 31, 2004 and 2003. Since we conduct business on a global basis in various foreign currencies, we are exposed to adverse movements in foreign currency exchange rates. In January 2001, we established a foreign currency hedging program utilizing foreign currency forward exchange contracts to hedge various nonfunctional currency exposures. The objective of this program is to reduce the effect of changes in foreign currency exchange rates on our results of operations. Furthermore, our goal is to offset foreign currency transaction gains and losses recorded for accounting purposes with gains and losses realized on the forward contracts. Our hedging activities cannot completely protect us from the risk of foreign currency losses as our currency exposures are constantly changing and not all of these exposures are hedged.

Interest Rate Risk. Our investments are subject to interest rate risk. Interest rate risk is the risk that our financial condition and results of operations could be adversely affected due to movements in interest rates. We invest our cash in a variety of interest-earning financial instruments, including

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bank time deposits, money market funds and taxable and tax-exempt variable-rate and fixed-rate obligations of corporations, municipalities and local, state and national governmental entities and agencies. These investments are primarily denominated in U.S. Dollars. Cash balances in foreign currencies overseas are primarily operating balances and are generally invested in short-term time deposits of the local operating bank.

Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are particularly sensitive to changes in interest rates. As of March 31, 2004, 87% of our debt securities and time deposits had remaining maturities of three months or less, while 3% had remaining maturities between three months and one year. The Federal Reserve Board influences the general direction of market interest rates. The Federal Reserve Board did not change the discount rate between December 31, 2003 and March 31, 2004. As of March 31, 2004, the weighted-average yield on time deposits and debt securities we held was 1.13% compared to 1.12% for debt securities held as of December 31, 2003. Based on the short-term nature of our investment holdings as of March 31, 2004, the fair market value of the portfolio would not be significantly impacted by changes in market interest rates.

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Credit Risk. Financial assets that potentially subject us to a concentration of credit risk consist principally of investments and accounts receivable. Cash on deposit is held with financial institutions with high credit standings. Debt security investments are generally in highly-rated corporations and municipalities as well as agencies of the U.S. government; however, a significant portion of these investments are in corporate debt securities, which carry a higher level of risk compared to municipal and U.S. government-backed securities. Our customer base consists of large numbers of geographically diverse enterprises dispersed across many industries. As a result, concentration of credit risk with respect to accounts receivable is not significant. However, we periodically perform credit evaluations for most of our customers and maintain reserves for potential losses. In certain situations we may seek letters of credit to be issued on behalf of some customers to mitigate our exposure to credit risk. We currently use foreign exchange contracts to hedge the risk associated with receivables denominated in foreign currencies. Risk of non-performance by counterparties to such contracts is minimal due to the size and credit standings of the financial institutions involved.

Market Price Risk. In addition to investments in debt securities, we maintain minority equity investments in various publicly traded companies for business and strategic purposes. Our investments in publicly traded companies are subject to market price volatility. As a result of market price volatility, we experienced \$14,000 of unrealized gains on these investments during the three months ended March 31, 2004. The remaining carrying value of minority equity investments was zero at March 31, 2004.

We have also invested in several privately held companies, many of which can still be considered in the start-up or development stages or may no longer be viable or operational. As a result of significant declines in the expected realizable amounts of these investments, we wrote off the book value of all these investments as the decline in fair value was considered other than temporary.

Inflation. Inflation has not had a material impact on our results of operations or financial condition.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Any investment in our company will be subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks described below together with all of the other information included in this report. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, they could materially adversely affect our business, financial condition, liquidity or results of operations. In that case, the trading price of our securities could decline and you may lose all or part of your investment.

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Risks Related To Our Recent Operating Results and Recent Events

We Have Experienced Substantial Negative Cash Flows And May Continue to Experience Such Negative Cash Flows, Which Would Have A Further Significant Adverse Effect On Our Business And Could Threaten Our Solvency.

We have experienced substantial negative cash flows during the three years ended December 31, 2003 and the quarter ended March 31, 2004, primarily due to sharp declines in our revenues and our inability to reduce our expenses to a level at or below the level of our revenues. Our continued inability to stabilize or grow revenues, control expenses and achieve positive cash flows could impair our ability to support our operations, adversely affect our liquidity, and, eventually, threaten our solvency and our ability to repay our debts when they come due, which would have a material adverse effect on our business, results of operations and financial condition as well as our stock price. In addition, we will face significant cash outlays relating to any resolution of the SEC investigation or settlement of the class action and derivative litigation, which would further impair our liquidity and we continue to be obligated to pay \$18.4 million annually in interest on our \$350 million in convertible debt maturing in December 2006. While the company has recently made efforts to strengthen its financial position with the recently announced investments that an affiliate of Q Investments and certain individual defendants in the class action and derivative litigation have agreed to make in the company, subject to the satisfaction of closing conditions, continuing negative cash flows and the adverse market perception associated therewith may continue to negatively affect our ability to sell our products and may adversely affect our ability to obtain additional debt or equity financing on advantageous terms. There can be no assurance that we will be successful in maintaining an adequate level of cash resources and we may be forced to act more aggressively in the future in the area of expense reduction in order to conserve cash resources.

We May Not Benefit From Increased Demand In The Market For Information Technology And The Improving Macroeconomic Environment If We Are Unable To Capture A Share Of An Enlarged Market, Which Would Negatively Impact Our Revenues And The Price Of Our Stock.

The macroeconomic environment appears to be improving and capital spending on information technology appears to have increased; however, our license revenues have continued to decline. Although the operating results of our business are often influenced by the overall demand for computer software and services, particularly in the areas in which we compete, if we continue to fail to capitalize on improvements in demand for computer software and services our revenues will decrease in comparison to current levels and our stock price may suffer. Further, the recovery in the macroeconomic environment is still in its early stages and the geopolitical situation has remained unstable, resulting in continued uncertainty. In the event that the rate of growth in the global economy slows or reverses or the geopolitical situation deteriorates, customers may again defer or reconsider purchasing products, potentially resulting in a continued reduction in our software license revenues and corresponding revenues from consulting and maintenance.

We Face Risks Related To An SEC Investigation And Securities Litigation That Could Have A Material Adverse Effect On Our Relationships With Customers, Business, Financial Condition And Results Of Operations And We May Face Additional Litigation In The Future That Could Also Harm Our Business.

The SEC has issued a formal order of investigation to determine whether there have been violations of the federal securities laws by us and/or others involved with us in connection with matters relating to the 2003 restatement of our consolidated financial statements. In addition, we and certain of our directors and officers have been named as defendants in class action and derivative lawsuits as a result of the 2003 restatement of our consolidated financial statements. We and certain of our directors and executive officers are also named as defendants in several private securities class action lawsuits relating to our alleged failure to disclose material information regarding customer implementations. We are generally obligated, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in some of these lawsuits.

We have established an accrual of \$10 million for estimated costs relating to a possible resolution of the SEC investigation. We have also established an accrual of \$42 million with respect to a possible settlement of the class action and derivative litigation, and we recently entered into a definitive agreement to settle that litigation for a net amount (in excess of payments from our insurance carriers) of \$42 million. The settlement of the class action and derivative litigation is subject to court approval following notice to class members of an opportunity to object or exclude

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themselves from the settlement. There can be no assurance that the SEC investigation will be resolved for the amount we have accrued, or at all, and there can be no assurance that the settlement of the class action and derivative litigation will receive court approval. Any resolution of the SEC investigation or settlement of the class action and derivative litigation will involve significant cash payments from the company that would increase negative cash flows. If we are unable to achieve a resolution of the SEC investigation or a settlement of the class action and derivative litigation, we could be liable for sanctions or large damage awards that could have a material adverse effect on our business, results of operations and financial condition. In addition, we may face additional litigation in the future that could also harm our business and impair our liquidity, including one private securities action that is not covered by the settlement to which we have agreed and potential litigation in relation to the termination of the license and development agreement between Shell Global Solutions International B.V. and i2 Technologies (Netherlands) B.V.

Defending against existing and potential litigation and other proceedings relating to the 2003 restatement of our consolidated financial statements may continue to require significant attention and resources of our management. We cannot assure you that the significant time and effort spent will not adversely affect our business, financial condition and results of operations.

The Pending Equity Investments of An Affiliate of Q Investments And Certain Individual Defendants In The Class Action And Derivative Litigation Will Have A Dilutive Effect on The Holdings Of Existing Stockholders. We May Seek Additional Public Debt or Equity Financing, And Any Future Financing May Only Be Available On Disadvantageous Terms, Or May Not Be Available At All.

An affiliate of Q Investments, a private investment firm and an existing investor in i2, has agreed to make a \$100 million preferred stock investment in our company. The closing of the transaction is expected to occur in the second quarter of 2004, subject to the satisfaction of closing conditions including the receipt of applicable regulatory approvals. We also anticipate that we will obtain \$22.0 million from the sale of common stock to certain individual defendants in the class action and derivative litigation, the aggregate proceeds of which would help fund the settlement of the class action and derivative litigation. The consummation of these transactions will have a dilutive effect on the holdings of our existing stockholders. In the future, we may seek additional private or public debt or equity financing, which could also have a dilutive effect on our stockholders. While we recently secured the financings described above, any future financings may not be available on advantageous terms.

Our Financial Results Have Varied And May Continue To Vary Significantly From Quarter To Quarter And We May Again Fail To Meet Expectations, Which Might Negatively Impact The Price Of Our Stock.

Our operating results have varied significantly from quarter to quarter in the past, and we expect our operating results to continue to vary from quarter to quarter in the future due to a variety of factors, many of which are outside of our control. Although our revenues are subject to fluctuation, significant portions of our expenses are not variable in the short term, such as our annual debt servicing expense of \$18.7 million, and we cannot reduce them quickly to respond to decreases in revenues. Therefore, if revenues are below expectations, this shortfall is likely to adversely and

disproportionately affect our operating results. These factors have caused our operating results to be below the expectations of securities analysts and investors in the past and may do so again in the future. Our failure to meet or exceed analyst and investor expectations might negatively affect the price of our common stock.

We Have Been And Continue To Be Subject To Certain Claims Pertaining To The Quality Of Our Products And Services, And Questions Regarding Our Financial Viability, Which Claims And Perceptions, If Unresolved Or Not Addressed, Could Seriously Harm Our Business And Our Stock Price.

From time to time, customers make claims pertaining to the quality and performance of our software and services, citing a variety of issues. Our recent operating performance, the decline in our stock price and the SEC investigation of us have led to questions in the market regarding our financial viability. Whether customer claims regarding the quality and performance of our products and services or concerns about our financial viability are founded or unfounded, if such claims and perceptions are not resolved in a manner favorable to us they may affect the market perception of our company, our products and our services. Any such reputational damage could have a material adverse effect on our business, results of operations and financial condition, and could negatively affect the price of our stock.

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Additional Restructuring Initiatives Have Been Executed, and Such Activities Pose Significant Risks To Our Business.

Additional restructuring initiatives have been executed by us in an effort to achieve our profitability objectives. The restructuring in March and April 2004 involved, among other things, reducing our workforce and ceasing continued development of functionality for certain of our products. These activities pose significant risks to our business, including the risk that terminated employees will disparage the company, file legal claims against us related to their termination of employment, become employed by competitors or share our intellectual property or other sensitive information with others. The failure to retain and effectively manage our remaining employees could increase our costs, adversely affect our development efforts and impact the quality of our products and customer service. If customers become dissatisfied with the results of our product decisions or service, our business could be adversely impacted, our maintenance renewals may decrease, our customers may take legal action against us and our sales to existing customers could decline, leading to reduced revenues. Failure to achieve the desired results of our strategic initiatives would harm our business, results of operations and financial condition.

Other Risks Related To Our Business

If We Are Unable To Develop Acceptable Products And Generate Demand For Such Products, Additional Serious Harm Could Result To Our Business.

We have invested significant resources in developing and marketing our products and services. The demand for, and market acceptance of, our products and services are subject to a high level of uncertainty. Adoption of software solutions, particularly by those individuals and enterprises that have historically relied upon traditional means of commerce and communication, requires a broad acceptance of substantially different methods of conducting business and exchanging information. Our products and services are often considered complex and may involve a new approach to the conduct of business by our customers. As a result, intensive marketing and sales efforts may be necessary to educate prospective customers regarding the uses and benefits of these products and services in order to generate demand. The market for our products and services may continue to weaken, competitors may develop superior products and services or we may fail to develop acceptable solutions to address new market conditions. Any one of these events could have a material adverse effect on our business, results of operations and financial condition. In addition, the SEC investigation of our company, questions regarding our viability, our de-listing from The NASDAQ National Market and our ongoing legal proceedings may continue to adversely impact customer demand.

Because Our Software Products Are Intended To Work Within Complex Business Processes, Implementation Or Upgrades Of Our Products Can Be Difficult, Time-Consuming And Expensive, And Customers May Be Unable To Implement Or Upgrade Our Products Successfully Or Otherwise Achieve The Benefits Attributable To Our Products. This May Result In Customer Dissatisfaction, Harm To Our Reputation And Cause Non-Payment Issues.

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Our products typically must integrate with the many existing computer systems and software programs of our customers. This can be complex, time-consuming and expensive, and may cause delays in the deployment of our products. As a result, some customers may have difficulty or be unable to implement our products successfully or otherwise achieve the benefits attributable to our products. Delayed or ineffective implementation or upgrades of our software and services may limit our sales opportunities, result in customer dissatisfaction and harm to our reputation, or cause non-payment issues.

We May Not Be Competitive, And Increased Competition Could Seriously Harm Our Business.

Relative to us, many of our competitors have one or more of the following advantages:

Longer operating history.

Greater financial, technical, marketing, sales and other resources.

Positive cash flow.

Profitable operations.

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Superior product functionality in certain areas.

Greater name recognition.

A broader range of products to offer.

Better software performance.

A larger installed base of customers.

Current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties to enhance their products, which may result in increased competition. In addition, we expect to experience increasing price competition as we compete for market share. We understand that some competitors may even be offering enterprise application software at no charge as components of product bundles. Further, traditional enterprise resource planning vendors such as SAP have focused more resources on the development and marketing of enterprise application software, particularly in the product and industry segments in which we compete. As a result of these and other factors, we may be unable to compete successfully with our existing or new competitors.

The Loss Of Certain Of Our Key Personnel And Any Future Potential Losses Of Key Personnel Or Our Failure To Attract Additional Personnel Could Seriously Harm Our Company.

We rely upon the continued service of a relatively small number of key technical, sales and senior management personnel. We have lost a number of key personnel as a result of our performance and our restructurings, among other reasons, and we believe our voluntary attrition rate is generally higher than the software industry's average. Our workforce reductions have impacted employees directly responsible for sales, which may affect our ability to close revenue transactions with our customers and prospects. Our future success depends on retaining our key employees and our ability to retain, attract and train other highly qualified technical, sales and managerial personnel, which may be increasingly difficult given our recent financial performance and employee layoffs. Additional restructuring activity may be required in the future that may result in further voluntary and involuntary attrition and loss of key personnel. We have employment agreements with relatively few of our key technical, sales and senior management personnel. As a result, our employees could resign with little or no prior notice. Our loss of any more of our key technical, sales and senior management personnel, and the intellectual capital that they possess, or our inability to retain, attract and train additional qualified personnel could have a material adverse effect on our business, results of operations and financial condition.

Continued Decreased Levels Of Demand For Our Enterprise Products And Services Could Significantly Reduce Our Revenues.

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Historically, we have derived a substantial portion of our revenues from licenses of our enterprise products and related services. Our enterprise products principally include solutions to address supply optimization, sourcing optimization, demand optimization, fulfillment optimization and logistics optimization. We expect license revenues and maintenance and consulting contracts related to our enterprise products to continue to account for a substantial portion of our revenues for the foreseeable future. We have experienced a sharp decrease in the demand for our enterprise products and related services due to a number of factors, including sales execution, product competitiveness and questions regarding our viability, which have led to a decline in our revenues. Other factors, such as competition and technological change as well as the SEC investigation of our company, our de-listing from The NASDAQ National Market and our ongoing legal proceedings, could also adversely impact demand for, or market acceptance of, these applications.

Failure To Complete Development Services Projects As Planned Could Harm Our Operating Results And Create Business Distractions And Negative Publicity That Could Harm Our Business.

Risks associated with our development services projects include, but are not limited to:

Customers may withhold cash payments or cancel contracts if we fail to meet our delivery commitments, the customers have financial difficulties or change strategy, or the functionality delivered is not acceptable to the customers. We are particularly susceptible to this with respect to arrangements where payments are scheduled to occur later in the engagement.

The cancellation or scaling back of one or more of our larger development services projects, such as the purported termination by Shell Global Solutions International B.V. of our license and development agreement with Shell, could have a material adverse impact on future development services revenues.

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We may be unable to recognize revenue associated with development services projects in accordance with expectations. We generally recognize revenue from custom software development projects over time using the contract method of accounting. Failure to complete project phases in accordance with the overall project plan can create variability in our expected revenue streams if we are not able to recognize revenues related to particular projects because of delays in development.

Many of our development services projects are fixed-price arrangements. If we fail to accurately estimate the resources required for a fixed-price project or the customer attempts to change the scope of the project, the profit, if any, realized from the project would be adversely affected to the extent that we have to add additional resources to complete the project.

Certain Of Our Customers Purchase Our Software, But Delay Or Terminate Its Implementation. If This Type Of Activity Becomes Significant, It Could Harm Our Ability To Sell To Existing Customers And Impact Our Maintenance and Services Revenues.

Certain of our existing customers delay or terminate implementations of our software due to budgetary constraints related to economic uncertainty, dissatisfaction with product quality, the difficulty of prioritizing a surplus of information technology projects, changes in business strategy or priorities or for other reasons. Such customers may be less likely to invest in additional software in the future and to continue to pay for software maintenance. Since our business relies to a large extent upon sales to existing customers and since maintenance and services revenues are key elements of our revenue base, any reduction in these sales or these maintenance and services payments could have a material adverse effect on our business, results of operations and financial condition.

Our Software May Contain Errors Which Could Result In The Loss Of Customers And Reputation, Adverse Publicity, Loss Of Revenues, Delays In Market Acceptance, Diversion of Development Resources And Claims Against Us By Customers.

Our software programs may contain errors or bugs. Although we conduct testing and quality assurance through a release management process, we may not discover bugs until our customers install and use a given product or until the volume of services that a product provides increases. On occasion, we have experienced delays in the scheduled introduction of new and enhanced products because of bugs. Errors could result in loss of customers and reputation, adverse publicity, loss of revenues, delays in market acceptance, diversion of development resources and claims against us by customers.

Failure or Circumvention of Our Controls and Procedures Could Seriously Harm our Business.

We have made significant changes in and may consider making additional changes to our internal controls, our disclosure controls and procedures, and our corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the

objectives of the system are met. Any failure of our controls, policies and procedures could have a material adverse effect on our business, results of operations and financial condition.

We May Not Be Able to Realize The Benefits Of Our Deferred Tax Assets.

If we do not achieve sufficient federal taxable income in future years to utilize our net operating loss carryforwards, they will expire, and we will be unable to realize the benefits of our deferred tax assets. In the second quarter of 2002, we stopped recognizing tax benefits for net operating losses for financial reporting purposes. In addition, we recorded a valuation allowance for all of our remaining deferred tax assets, which resulted in an \$887.3 million charge to income tax expense.

We May Have Increasing Difficulty Obtaining And Maintaining Cost-Effective Insurance, Which May Have A Material Adverse Effect On Our Business, Results Of Operations and Financial Condition.

We obtain insurance to cover a variety of potential risks and liabilities. In the current market, insurance coverage is becoming more restrictive. While we have seen recent improvements in pricing, it may become more difficult to maintain insurance coverage at historical levels, or if such coverage is available, the cost to obtain or maintain it may increase substantially. This may result in our being forced to bear the burden of an increased portion of risks for which we have traditionally been covered by insurance, which could have a material adverse effect on our business, results of operations and financial condition.

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We May Not Be Successful In Convincing Customers To Migrate To Current Or Future Releases Of Our Products, Which May Lead To Reduced Consulting And Maintenance Revenues And Less Future Business From Existing Customers.

Our customers may not be willing to incur the costs or invest the resources necessary to complete upgrades to current or future releases of our products. This may lead to our loss of consulting and maintenance revenues and future business from customers that continue to operate prior versions of our products or choose to no longer use our products.

If We Fail To Derive Benefits From Our Existing And Future Strategic Relationships, Our Business Will Suffer.

From time to time, we have collaborated with other companies in areas such as marketing, distribution or implementation. Maintaining these and other relationships is a meaningful part of our business strategy. However, some of our current and potential strategic partners are either actual or potential competitors, which may impair the viability of these relationships. In addition, some of our relationships have failed to meet expectations and may fail to meet expectations in the future. A failure by us to maintain existing strategic relationships or enter into successful new strategic relationships in the future could have a material adverse effect on our business, results of operations and financial condition.

Because Our Products Collect And Analyze Stored Customer Information, Concerns That Our Products Do Not Adequately Protect The Privacy Of Consumers Could Inhibit Sales Of Our Products.

One of the features of our supply chain management software applications is the ability to develop and maintain profiles of consumers for use by businesses. Typically, these products capture profile information when consumers, business customers and employees visit an Internet web-site and volunteer information in response to survey questions concerning their backgrounds, interests and preferences. Our products augment these profiles over time by collecting usage data. Although our supply chain management products are designed to operate with applications that protect user privacy, privacy concerns nevertheless may cause visitors to resist providing the personal data necessary to support this profiling capability. Any inability to adequately address consumers privacy concerns could have a material adverse affect on our business, results of operation and financial condition.

Serious Harm To Our Business Could Result If Our Encryption Technology Fails To Ensure The Security Of Our Customers Online Transactions.

The secure exchange of confidential information over public networks is a significant concern of consumers engaging in on-line transactions and interaction. Some of our software applications use encryption technology to provide the security necessary to effect the secure exchange of valuable

and confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the algorithms that these applications use to protect customer transaction data. If any compromise or breach were to occur, it could have a material adverse affect on our business, results of operation and financial condition.

We May Not Successfully Integrate The Products, Technologies Or Businesses From, Or Realize The Intended Benefits Of, Acquisitions, And We May Make Future Acquisitions Or Enter Into Joint Ventures That Are Not Successful, Which Could Seriously Harm Our Business.

Historically, although not recently, we have acquired technology or businesses to supplement and expand our product offerings. In the future, we could acquire additional products, technologies or businesses, or enter into joint venture arrangements, for the purpose of complementing or expanding our business. Negotiation of potential acquisitions or joint ventures and our integration of acquired products, technologies or businesses could divert management's time and resources. Future acquisitions could cause us to issue equity securities that would dilute your ownership of us, incur debt or contingent liabilities, amortize intangible assets, or write off in-process research and development and other acquisition-related expenses that could have a material adverse affect on our business, results of operation and our financial condition. We may not be able to properly integrate acquired products, technologies or businesses with our existing products and operations, train, retain and motivate personnel from the acquired businesses, or combine potentially different corporate cultures. Failure to do so could deprive us of the intended benefits of those acquisitions. In addition, we may be required to write-off acquired research and development if further development of purchased technology becomes unfeasible, which may adversely affect our business, results of operation and our financial condition.

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If We Fail To Adequately Protect Our Intellectual Property Rights Or Face A Claim Of Intellectual Property Infringement By A Third Party, We Could Lose Our Intellectual Property Rights Or Be Liable For Significant Damages.

We rely primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect our proprietary rights. However, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual property. This is particularly true in India, where a significant portion of our solution operations are located, and other foreign countries such as China where the laws do not protect proprietary rights to the same extent as the laws of the United States and may not provide us with an effective remedy against piracy. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. Any litigation to defend our intellectual property rights could be time-consuming and costly.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. As a result, we may be subject to claims of intellectual property infringement. Although we are not aware that any of our products infringe upon the proprietary rights of third parties, third parties may claim infringement by us with respect to current or future products. Any infringement claims, with or without merit, could be time-consuming, result in costly litigation or damages, cause product shipment delays or the loss or deferral of sales, or require us to enter into royalty or licensing agreements. If we enter into royalty or licensing agreements in settlement of any litigation or claims, these agreements may not be on terms acceptable to us. Unfavorable royalty and licensing agreements could have a material adverse effect on our business, results of operations and financial condition.

We Are Dependent On Third-Party Software That We Incorporate Into And Include With Our Products And Solutions And Impaired Relations With These Third Parties, Defects In Third-Party Software Or The Inability To Enhance Their Software Over Time Could Harm Our Business.

We incorporate and include third-party software into and with certain of our products and solutions. Additionally, we may incorporate and include additional third-party software into and with our products and solutions in future product offerings. The operation of our products could be impaired if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the development and maintenance of the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third parties will continue to make their software available to us on acceptable terms, to invest the appropriate levels of resources in their products and services to maintain and enhance the software capabilities, or to remain in business.

Further, it may be difficult for us to replace any third-party software if a vendor seeks to terminate our license to the software or our ability to license the software to customers. Any impairment in our relationship with these third parties could have a material adverse effect on our business, results of operations and financial condition.

We Face Risks Associated With International Sales And Operations That Could Harm Our Company.

International revenues accounted for approximately 39% of our total revenues during the first quarter of 2004, and we expect to continue to generate a significant portion of our revenues from international sales in the future. Our international operations are subject to risks inherent in international business activities, including the tendency of markets outside of the U.S. to be more volatile and difficult to forecast than the U.S. market. Any of the following factors, among other things, could adversely affect the success of our international operations:

Difficulties and costs of staffing and managing geographically disparate operations.

Extended accounts receivable collection cycles in certain countries.

Compliance with a variety of foreign laws and regulations.

Overlap of different tax structures.

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Meeting import and export licensing requirements.

Trade restrictions.

Changes in tariff rates.

Changes in general economic and political conditions in international markets.

The Expansion Of Our Operations In India Poses Significant Risks That Could Impair Our Ability To Develop Our Products Or Put Our Products At A Competitive Disadvantage.

We have shifted a large portion of our development and services capacity to India. However, we may not fully achieve the cost savings and other benefits that we anticipate from this program and we may not be able to attract or retain sufficient numbers of developers with the necessary skill sets in India to meet our needs. Our current infrastructure in India is less developed than our North American infrastructure and the distributed nature of our development resources could create further operational challenges and complications. Additionally, we have a heightened risk exposure to changes in the economic, security and political conditions of India. Operational issues, recruiting and retention issues, economic and political instability, military actions and other unforeseen occurrences in India could impair our ability to develop and introduce new software applications and functionality in a timely manner, or hinder our ability to provide cost-competitive services, either of which could put our products at a competitive disadvantage and cause us to lose existing customers or fail to attract new customers.

Changes In The Value Of The U.S. Dollar, As Compared To The Currencies Of Foreign Countries Where We Transact Business, Could Harm Our Operating Results.

To date, our international revenues have been denominated primarily in U.S. Dollars. However, the majority of our international expenses, including the wages of approximately 55% of our employees, have been denominated in currencies other than the U.S. Dollar. Therefore, changes in the value of the U.S. Dollar as compared to these other currencies may adversely affect our operating results. We have implemented limited hedging programs to mitigate our exposure to currency fluctuations affecting international accounts receivable, cash balances and intercompany accounts, but we do not hedge our exposure to currency fluctuations affecting future international revenues and expenses and other commitments. For the foregoing reasons, currency exchange rate fluctuations have caused, and likely will continue to cause, variability in our foreign currency denominated revenue streams and our cost to settle foreign currency denominated liabilities.

We May Become Subject To Product Liability Claims That Could Seriously Harm Our Business.

Our software products generally are used by our customers in mission critical applications where component failures could cause significant damages. To mitigate this exposure, our license

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agreements typically seek to limit our exposure to product liability claims from our customers. However, these contract provisions may not preclude all potential claims. Additionally, our insurance policies may be inadequate to protect us from all liability that we may face. Product liability claims could require us to spend significant time and money in litigation or to pay significant damages. As a result, any claim, whether or not successful, could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

Risks Related To Our Industry

If Our Products Are Not Able To Deliver Fast, Demonstrable Value To Our Customers, Our Business Could Be Seriously Harmed.

Enterprises are requiring their application software vendors to provide faster time to value on their technology investments. We must continue to improve the speed of our implementations and the pace at which our products deliver value or our competitors may gain important strategic advantages over us. If we cannot successfully respond to these market demands, or if our competitors do so more effectively than we do, our business, results of operations and financial condition could be materially and adversely affected.

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Releases Of And Problems With New Products May Cause Purchasing Delays, Which Would Harm Our Revenues.

Our practice and the practice in the industry is to periodically develop and release new products and enhancements. As a result, customers may delay their purchasing decisions in anticipation of our new or enhanced products, or products of competitors. Delays in customer purchasing decisions could seriously harm our business and operating results. Moreover, significant delays in the general availability of new releases, significant problems in the installation or implementation of new releases, or customer dissatisfaction with new releases could have a material adverse effect on our business, results of operations and financial condition.

Risks Related To Our Stock

Our Inability To List Our Common Stock On The NASDAQ National Market May Make Our Common Stock More Difficult To Trade, Harm Our Business Reputation and Adversely Affect Our Ability To Raise Funds In The Capital Markets.

The de-listing of our common stock from The NASDAQ National Market may have made our common stock more difficult to trade, may have harmed our general business reputation and may be a consideration for investors when considering an investment in us, which could have a material adverse effect on our business, results of operations and financial condition. We may not be able to satisfy NASDAQ's initial listing requirements to be eligible to re-apply for listing on The NASDAQ National Market. If we are successful in obtaining such approval and are accepted for listing on The NASDAQ National Market, there is still a risk that our common stock price will decline to levels that would again cause us not to comply with NASDAQ listing standards.

Our Executive Officers And Directors, In Particular Sanjiv Sidhu, Have Significant Influence Over Stockholder Votes And Q Investments Will Have A Significant Influence After The Consummation Of Its Equity Investment In The Company.

As of May 3, 2004 and prior to adjusting for the equity investments in the company by an affiliate of Q Investments, Sanjiv Sidhu and another individual defendant in the class action and derivative litigation, our current executive officers and directors together beneficially owned approximately 28.6% of the total voting power of our company, approximately 26.6% of which was beneficially owned by Sanjiv Sidhu, our Chairman, Chief Executive Officer and President, and entities that he controls. Further, an affiliate of Q Investments, which after the consummation of its equity purchase transaction will be the company's largest shareholder at approximately 26% ownership on an as converted basis, shall have the right to appoint two directors to the Board of Directors. Accordingly, Mr. Sidhu, Q Investments and our officers and directors holding or controlling holdings of stock in our company have had and will have significant influence in determining the composition of our Board of Directors and other significant matters requiring stockholder approval or acquiescence, including amendments to our certificate of incorporation, a substantial sale of assets, a merger or similar corporate transaction or a non-negotiated takeover attempt. Such concentration of ownership may discourage a potential acquirer from making an offer to buy our

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company that other stockholders might find favorable, which in turn could adversely affect the market price of our common stock.

Our Charter And Bylaws Have Anti-Takeover Provisions And We Have A Stockholder Rights Plan Which, In Combination, Effectively Inhibit A Non-Negotiated Merger Or Business Combination.

Provisions of our certificate of incorporation and our bylaws, Delaware law and our stockholder rights plan could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which restricts certain business combinations with interested stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination.

Our Stock Price Historically Has Been Volatile, Which May Make It More Difficult For You To Resell Common Stock When You Want At Prices You Find Attractive.

The market price of our common stock has been highly volatile in the past, and may continue to be volatile in the future. For example, during 2003 the market price of our common stock on The NASDAQ National Market and the over-the-counter Pink Sheets fluctuated between \$0.53 and \$2.16 per share and, in the first quarter of 2004, the market price of our common stock on the over-the-counter Pink Sheets fluctuated between \$1.08 and \$2.30. The following factors could significantly affect the market price of our common stock:

Continued negative cash flows.

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The consummation of the anticipated equity investments in our company by an affiliate of Q Investments and certain individual defendants in the class action and derivative litigation.

Additional equity or debt transactions.

Continued quarterly variations in our results of operations.

If effected, a reverse split of our common stock.

The market or system on which our common stock trades.

Announcement of new customers, new products, product enhancements, joint ventures and other alliances by our competitors or us.

Technological innovations by our competitors or us.

Stock valuations or performance of our competitors.

General market conditions, geopolitical events or market conditions specific to particular industries.

Perceptions in the marketplace of performance problems involving our products and services.

Any future decision to restate any of our financial results.

In particular, the stock prices of many companies in the technology and emerging growth sectors have fluctuated widely, often due to events unrelated to their operating performance. These fluctuations may harm the market price of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is included in the section captioned "Sensitivity to Market Risks," included in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 4. CONTROLS AND PROCEDURES

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Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of our company that are designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is accumulated and communicated to our company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We formed a disclosure committee in 2002 that includes senior financial, operational and legal personnel charged with assisting our Chief Executive Officer and Chief Financial Officer in overseeing the accuracy and timeliness of our periodic reports filed under the Exchange Act and in evaluating regularly our disclosure controls and procedures.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report in that they were reasonably designed to ensure that information required to be disclosed by our company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. It should be noted that any system of controls, however well designed and operated, is based in part upon certain assumptions and can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

Changes in Internal Control Over Financial Reporting. As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Based on that evaluation, during our most recent fiscal quarter there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We continue to consider further actions to improve the effectiveness of our control processes and procedures.

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PART II

ITEM 1. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings that arise in the ordinary course of our business, including claims and legal proceedings which have been asserted against us by former employees and certain customers, and have been in negotiations to settle certain of those contingencies. In addition, a formal investigation is being conducted by the SEC, class action securities and shareholder derivative litigation has been commenced against us and one additional private securities action has been commenced against certain of our current and former officers with respect to whom we may have indemnification obligations, all in connection with matters relating to the 2003 restatement of our consolidated financial statements. As discussed below, we are also attempting to settle or otherwise resolve those proceedings.

Securities and Exchange Commission Investigation

On or about March 26, 2003, we were advised that the SEC had issued a formal order of investigation to determine whether there have been violations of the federal securities laws by the company and/or others involved with the company in connection with matters relating to the 2003 restatement of our consolidated financial statements. Our Board of Directors had previously directed our Audit Committee to conduct an internal investigation of certain allegations made during the fall of 2001 by a former officer relating to revenue recognition and financial reporting, among other things. In November 2002, we reported to the SEC and publicly disclosed the results of that investigation, as well as certain related allegations made during the fall of 2002 by the former officer and another former officer. Thereafter, the staff of the SEC opened an informal inquiry into these allegations and other matters relating to our financial reporting, and the SEC issued its formal order of investigation. We intend to continue to fully cooperate with the SEC and discussions with the SEC staff regarding a possible resolution of the SEC investigation are continuing. However, we may face sanctions in connection with any resolution of the SEC investigation, including but not limited to significant monetary penalties and injunctive relief.

Class Action Litigation

Beginning in March 2001, a number of purported class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company and certain of our officers and directors. The cases were consolidated, and in August 2001 the plaintiffs filed a consolidated amended complaint. The consolidated amended complaint alleges that we and certain of our officers and directors violated the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by making purportedly false and misleading statements concerning the characteristics and implementation of certain of our software products. The consolidated amended complaint seeks unspecified damages on behalf of a purported class of purchasers of our common stock during the period from May 4, 2000 to February 26, 2001. By stipulation, in December 2002, the court certified the plaintiff class.

Beginning in April 2003, additional purported class action complaints were filed in the United States District Court for the Northern District of Texas (Dallas Division) against the company and certain of our current and former officers and directors. The complaints brought claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, relating to the 2003 restatement of our consolidated financial statements. Specifically, these actions allege that we issued a series of false or misleading statements to the market during the class period that failed to disclose that (i) we had materially overstated our revenue by improperly recognizing revenue on certain customer contracts, (ii) we lacked adequate internal controls and were therefore unable to ascertain our true financial condition, and (iii) as a result of the foregoing, our financial statements issued during the class period were materially false and misleading. Plaintiffs contend that such statements caused our stock price to be artificially inflated. The complaints seek unspecified damages on behalf of a purported class of purchasers of our common stock during the period from April 18, 2000 to January 24, 2003.

In July 2003, all of these class action complaints were consolidated for purposes of pre-trial matters only. Although we have vigorously defended against these lawsuits, as discussed below we have recently entered into a definitive agreement to settle the actions.

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Derivative Litigation

In April 2001, a purported shareholder derivative lawsuit was filed in Dallas County, Texas, against certain of our officers and directors, naming the company as a nominal defendant. The complaint alleged that certain of our officers and directors breached their fiduciary duties to the company and our stockholders by (i) selling shares of our common stock while in possession of material adverse non-public information regarding our business and prospects, and (ii) disseminating inaccurate information regarding our business and prospects to the market and/or failing to correct such inaccurate information. This lawsuit was removed to the United States District Court for the Northern District of Texas (Dallas Division). A motion to dismiss the action was filed, and on October 8, 2002, the motion was granted. Plaintiffs filed an appeal of that decision on October 15, 2002 and, following oral arguments, plaintiffs moved for voluntary dismissal of their appeal. On January 5, 2004, the appellate court granted plaintiffs' voluntary dismissal motion and judgment against the plaintiffs became final.

In April and May 2003, two additional purported shareholder derivative lawsuits were filed in the United States District Court for the Northern District of Texas (Dallas Division) against certain of our officers and directors, naming the company as a nominal defendant. The complaints alleged that certain of our officers and directors breached their fiduciary duties to the company and our stockholders by (i) causing us to improperly recognize revenue in violation of generally accepted accounting principles to artificially inflate our stock price in order to complete acquisitions in which our stock was used as consideration, (ii) selling shares of our common stock while in possession of material adverse non-public information regarding our financial statements and (iii) securing personal loans using our allegedly artificially inflated stock price. In July 2003, these lawsuits were consolidated for all purposes. Plaintiffs amended their consolidated complaint to add a claim that our Chief Executive Officer and our former Chief Financial Officer violated Section 304 of the Sarbanes-Oxley Act of 2002, seeking recovery from them of bonuses, equity-based compensation and profits realized from sales of securities of the company. A motion to dismiss the actions was filed, and on January 26, 2004, the motion was granted and judgment was entered against the plaintiffs. An appeal of that decision was filed on February 24, 2004.

In May 2003, another purported shareholder derivative lawsuit was filed in the United States District Court for the Northern District of Texas (Dallas Division) against our Chief Executive Officer, our former Chief Financial Officer and our directors, naming the company as a nominal defendant. The complaint alleges that our Chief Executive Officer and our former Chief Financial Officer violated Section 304 of the Sarbanes-Oxley Act of 2002, and seeks recovery from them of bonuses, equity-based compensation and profits realized from sales of securities of the company. The lawsuit also names our directors for failing to seek recovery of the aforementioned bonuses, equity-based compensation and trading profits. A motion to dismiss was filed, and on February 26, 2004, the motion was granted and judgment was entered against the plaintiffs. Plaintiffs did not appeal that decision, and the judgment against them is final.

As stated, these lawsuits are or were derivative in nature; they do not and did not seek relief from the company. However, we have entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors, and have advanced payment of legal fees and costs incurred by the defendants pursuant to our obligations under the indemnification agreements and/or applicable Delaware law. In addition, we may be obligated to continue to advance payment of legal fees and costs incurred by the individual defendants in the remaining lawsuits throughout the pendency of those actions. Although we have vigorously defended against

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these lawsuits, as discussed below we have recently entered into a definitive agreement to settle these actions.

Settlement of Class Action Litigation and Derivative Litigation

On May 7, 2004, we reached a definitive agreement to settle the class action and derivative litigation referred to above. Under the agreement, the total settlement amount is \$85 million, which includes \$43 million that will be covered by our insurance policies and \$42 million that will be paid by the company. To fund a portion of the \$42 million payable by the company in connection with this settlement, the company has entered into definitive agreements providing for the issuance and sale by the company, after the satisfaction of certain conditions, of \$20.0 million of common stock to Sanjiv Sidhu, our Chairman, Chief Executive Officer and President, and \$2.0 million of common stock to Gregory Brady, our former Chief Executive Officer and President, both of whom were individual defendants in the actions.

The settlement, which does not reflect any admission of wrongdoing by the company or its directors and officers, is subject to certain conditions including approval by the U.S. District Court for the Northern District of Texas following notice to class members of an opportunity to object or exclude themselves from the settlement. The settlement does not cover the private securities action discussed below.

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Private Securities Action

On February 13, 2004, a complaint was filed in the United States District Court for the Northern District of Texas (Dallas Division) against certain of our current and former officers and directors with respect to whom we may have indemnification obligations, entitled *Baldrige v. Sidhu*, No. 3:04CV-319-D. Our company is not named as a defendant in this action. The complaint asserts claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, relating to the 2003 restatement of our consolidated financial statements. Plaintiffs contend that such consolidated financial statements caused our stock price to be artificially inflated. The complaints seek unspecified damages on behalf of four purported purchasers of a total of 610,250 shares of our common stock from March 2001 through August 2002.

Patent Infringement Suit

On April 12, 2004, a complaint was filed in the United States District Court in Marshall, Texas against the company by Sky Technologies. The complaint alleges that we have infringed upon certain of the patents of Sky Technologies and further alleges that we misappropriated certain of the plaintiff's trade secrets. The plaintiff claims an unspecified amount of damages at this time. We have yet to file an appearance in the lawsuit. As this action is at an early stage, we are currently not able to assess an impact, if any, to our condensed consolidated financial statements.

Certain Accruals

We have accrued for estimated losses in the accompanying condensed consolidated financial statements for those matters where we believe the likelihood of an adverse outcome is probable and the amount of the loss is reasonably estimable.

Based on the status of our discussions with the SEC staff, we recorded an accrual of \$10.0 million in the accompanying condensed consolidated financial statements for the first quarter of 2004 for costs associated with a possible resolution of the SEC investigation. The accrual represents our estimate of the costs, in addition to legal expenses, that will be required to be paid by us if a resolution of the SEC investigation is achieved.

In addition, we recorded an accrual of \$42.0 million in the fourth quarter of 2003 for estimated losses relating to a possible settlement of the class action and derivative litigation. The accrual represented our estimate at such time of the amount, in excess of expected payments from our insurance carriers, that would be required to be paid by us if a settlement of the lawsuits was achieved.

Discussions with the SEC staff regarding a possible resolution of the SEC investigation are continuing. In addition, as described above, we have reached a definitive agreement to settle the class action and derivative litigation, subject to court approval. Any resolution of the SEC investigation and the class action and derivative litigation will involve significant cash payments from i2. Such cash payments could be more than the amounts currently estimated and accrued for in our condensed consolidated financial statements for the quarter ended March 31, 2004. The adverse resolution of any one or more of the matters described in this Item 1 over and above the amount, if any, that has been estimated and accrued in the accompanying condensed consolidated financial statements could have a material adverse effect on our business, financial condition or results of operations. See *Note 7 Commitments and Contingencies* in the accompanying notes to condensed consolidated financial statements.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In connection with the execution of the Preferred Stock Purchase Agreement, dated as of April 27, 2004, by and between the company and R² Investments, LDC, we have amended the Rights Agreement, dated as of January 17, 2002, between the company and Mellon Investor Services, LLC. The amendment provides that R² Investments, LDC will not be an Acquiring Person under such Rights Agreement, after taking into account the shares beneficially owned by the Investor as of April 27, 2004 and shares that may be issued upon conversion of any securities convertible into or exchangeable for our common stock (Common Stock Equivalents) beneficially owned by R Investments, LDC as of April 27, 2004 (the Current Ownership Interest), as a result of (i) the execution and delivery of the Preferred Stock Purchase Agreement and the consummation of the transactions contemplated thereby, (ii) the acquisition of the shares of 2.5% Series B Convertible Preferred Stock, the shares of our common stock upon a conversion of the Preferred Stock and the acquisition of any additional securities pursuant to the terms of the Preferred Stock Purchase Agreement and (iii) the acquisition of shares of our common stock or Common Stock Equivalents after the date of the Preferred Stock Purchase Agreement; provided that the amount specified in clause (iii) when added to the Current Ownership Interest does not exceed 15% of the shares of our common stock then outstanding.

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In connection with the anticipated issuance and sale by us of \$20.0 million of common stock to Sanjiv Sidhu, our Chairman, Chief Executive Officer and President, we have further amended the Rights Agreement to exclude Mr. Sidhu from the definition of Acquiring Person under such Rights Agreement with respect to (i) shares of our common stock beneficially owned by Mr. Sidhu as of the date of the Rights Agreement, (ii) the \$20.0 million of common stock to be acquired by Mr. Sidhu and (iii) up to an additional 5% of our outstanding common stock, measured at the time Mr. Sidhu acquires such common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) *Exhibits*

Exhibit	
Number	Description
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Sanjiv S. Sidhu, the President and Chief Executive Officer of i2.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Mary K. Murray, Executive Vice President and Chief Financial Officer of i2.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Sanjiv S. Sidhu, the

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President and Chief Executive Officer of i2.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Mary K. Murray, Executive Vice President and Chief Financial Officer of i2.

(b) Reports on Form 8-K

During the quarter ended March 31, 2004, we filed the following report on Form 8-K:

Current Report on Form 8-K (Items 7, 9 and 12) on January 28, 2004, which announced the release of our 2003 annual and fourth quarter financial results. The financial information was contained in the press release and earnings script attached as Exhibits 99.1 and 99.2 to the Form 8-K.

After the quarter ended March 31, 2004, we filed the following reports on Form 8-K:

Current Report on Form 8-K (Item 5) on April 5, 2004, which announced that i2 Technologies (Netherlands) B.V. received notice from Shell Global Solutions International B.V. that Shell was purporting to terminate the license and development agreement between the parties.

Current Report on Form 8-K (Items 7, 9 and 12) on April 26, 2004, which announced the release of our first quarter 2004 financial results. The financial information was contained in the press release attached as Exhibit 99.1 to the Form 8-K.

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Current Report on Form 8-K (Item 5) on May 4, 2004, which announced that we had entered into a Preferred Stock Purchase Agreement with R² Investments, LDC whereby R² Investments, LDC had agreed to purchase, subject to certain conditions, 100,000 shares of 2.5% Series B Convertible Preferred Stock at a purchase price of \$1,000 per Series B Share. The following documents were filed as exhibits to the Form 8-K: (i) Exhibit 3.1 Form of Certificate of Designations of 2.5% Series B Convertible Preferred Stock of i2 Technologies, Inc., (ii) Exhibit 4.1 Preferred Stock Purchase Agreement, dated as of April 27, 2004, by and between i2 Technologies, Inc. and R² Investments, LDC, (iii) Exhibit 4.2 First Amendment to Rights Agreement, dated as of April 27, 2004, between i2 Technologies, Inc. and Mellon Investor Services LLC, (iv) Exhibit 10.1 Form of Registration Rights Agreement to be entered into by and between i2 Technologies, Inc. and R² Investments, LDC, and (v) Exhibit 99.1 Press Release dated April 27, 2004.

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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 our behalf by the undersigned, hereunto duly authorized.

i2 TECHNOLOGIES, INC.

May 10, 2004

By: /s/ MARY K. MURRAY

Mary K. Murray
Executive Vice President and

Chief Financial Officer
(Principal financial and accounting officer)

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