MINDBODY, Inc.
Form 10-Q
November 01, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from __________ to __________.

Commission File Number: 001-37453

MINDBODY, INC.
(Exact name of registrant as specified in its charter)

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

4051 Broad Street, Suite 220
San Luis Obispo, CA 93401
(Address of principal executive offices)(Zip Code)
(877) 755-4279
(Registrant's telephone number, including area code)

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | x |
| Non-accelerated filer | o (Do not check if a small reporting company) | Small reporting company | o |
| | | Emerging growth company | x |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. x

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

As of October 27, 2017, the registrant had 42,725,530 shares of Class A common stock, and 3,975,840 shares of Class B common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “possible,” “continue” or the negative of these words or other similar terms or expressions that concern, among other things, our expectations, strategy, plans or intentions. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

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

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q. You should not rely upon forward-looking statements as predictions of future events. The outcomes of the events described in these forward-looking statements are subject to substantial risks, uncertainties and other factors described in Part II, Item 1A - “Risk Factors,” and elsewhere, in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
MINDBODY, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)
(Unaudited)

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $225,312 | $85,864 |
| Accounts receivable | 10,047 | 9,129 |
| Prepaid expenses and other current assets | 5,698 | 3,702 |
| Total current assets | 241,057 | 98,695 |
| Property and equipment, net | 34,484 | 33,104 |
| Intangible assets, net | 5,835 | 2,027 |
| Goodwill | 11,583 | 9,039 |
| Other noncurrent assets | 593 | 650 |
| TOTAL ASSETS | $293,552 | $143,515 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $7,421 | $4,827 |
| Accrued expenses and other liabilities | 10,857 | 10,470 |
| Deferred revenue, current portion | 6,063 | 4,859 |
| Other current liabilities | 1,871 | 581 |
| Total current liabilities | 26,212 | 20,737 |
| Deferred revenue, noncurrent portion | 3,256 | 3,269 |
| Deferred rent, noncurrent portion | 1,811 | 1,387 |
| Financing obligation on leases, noncurrent portion | 15,066 | 15,450 |
| Other noncurrent liabilities | 689 | 1,016 |
| Total liabilities | 47,034 | 41,859 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Class A common stock, par value of $0.000004 per share; 1,000,000,000 shares authorized, 42,583,388 shares issued and outstanding as of September 30, 2017; 1,000,000,000 shares authorized, 30,820,502 shares issued and outstanding as of December 31, 2016 | — | — |
| Class B common stock, par value of $0.000004 per share; 100,000,000 shares authorized, 4,002,891 shares issued and outstanding as of September 30, 2017; 100,000,000 shares authorized, 9,777,757 shares issued and outstanding as of December 31, 2016 | — | — |
| Additional paid-in capital | 445,928 | 289,317 |
| Accumulated other comprehensive loss | (135) | (300) |
| Accumulated deficit | (199,275) | (187,361) |
| Total stockholders' equity | 246,518 | 101,656 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $293,552 | $143,515 |

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

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MINDBODY, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | $46,612 | $35,262 | $132,933 | $100,830 |
| Cost of revenue | 13,123 | 10,972 | 37,880 | 31,657 |
| Gross profit | 33,489 | 24,290 | 95,053 | 69,173 |
| Operating expenses: | | | | |
| Sales and marketing | 18,514 | 14,599 | 52,210 | 41,534 |
| Research and development | 8,976 | 7,747 | 26,426 | 22,758 |
| General and administrative | 9,763 | 7,346 | 27,807 | 22,550 |
| Total operating expenses | 37,253 | 29,692 | 106,443 | 86,842 |
| Loss from operations | (3,764) | (5,402) | (11,390) | (17,669) |
| Interest income (expense), net | 172 | (261) | (125) | (865) |
| Other income (expense), net | 45 | (90) | (56) | (226) |
| Loss before provision for income taxes | (3,547) | (5,753) | (11,571) | (18,760) |
| Provision for income taxes | 83 | 142 | 343 | 279 |
| Net loss | (3,630) | (5,895) | (11,914) | (19,039) |
| Net loss per share, basic and diluted | $(0.08) | $(0.15) | $(0.27) | $(0.48) |
| Weighted-average shares used to compute net loss per share, basic and diluted | 46,460 | 39,965 | 43,475 | 39,708 |

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

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MINDBODY, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net loss | $(3,630) | $(5,895) | $(11,914) | $(19,039) |
| Other comprehensive gain (loss), net of taxes: | | | | |
| Change in cumulative translation adjustment | 22 | (6) | 165 | 24 |
| Comprehensive loss | $(3,608) | $(5,901) | $(11,749) | $(19,015) |

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

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MINDBODY, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

| | Nine Months Ended September 30, 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $(11,914) | $(19,039) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 6,736 | 5,671 |
| Stock-based compensation expense | 9,925 | 6,606 |
| Other | 17 | 820 |
| Changes in operating assets and liabilities net of effects of acquisitions: | | |
| Accounts receivable | (839) | (2,229) |
| Prepaid expenses and other current assets | (1,961) | (605) |
| Other assets | 64 | (67) |
| Accounts payable | 1,661 | (52) |
| Accrued expenses and other liabilities | 265 | 2,635 |
| Deferred revenue | 1,152 | 2,031 |
| Deferred rent | 418 | 105 |
| Net cash provided by (used in) operating activities | 5,524 | (4,124) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (5,792) | (6,466) |
| Acquisition of business | (1,700) | (4,138) |
| Net cash used in investing activities | (7,492) | (10,604) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from follow-on public offering | 134,277 | — |
| Proceeds from employee stock purchase plan | 3,238 | 3,040 |
| Proceeds from exercise of equity awards | 5,619 | 4,884 |
| Payment related to shares withheld for taxes | (1,563) | — |
| Repayment on financing and capital lease obligations | (321) | (287) |
| Other | (33) | (33) |
| Net cash provided by financing activities | 141,217 | 7,604 |
| Effect of exchange rate changes on cash and cash equivalents | 199 | 7 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 139,448 | (7,117) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 85,864 | 93,405 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $225,312 | $86,288 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for income taxes | $212 | $186 |
| Cash paid for interest | 934 | 980 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Earnout in business combination deemed part of total purchase consideration | 5,142 | — |
| Unpaid equipment purchases | 1,664 | 1,592 |
| Unpaid acquisition consideration held back to satisfy potential indemnification claims | 500 | 750 |
| Unpaid follow-on public offering costs | 11 | — |
| Stock issued in business acquisition | — | 500 |

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

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MINDBODY, INC.
Notes to Condensed Consolidated Financial Statements

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
Description of Business
MINDBODY, Inc. ("MINDBODY" or the "Company") was incorporated in California in 2004 and reincorporated in Delaware in March 2015. MINDBODY is headquartered in San Luis Obispo, California and has operations in the United States, the United Kingdom, and Australia.
MINDBODY and its wholly owned subsidiaries (collectively, the "Company", "we", "us" or "our") is a provider of cloud-based business management software for the wellness services industry and a growing consumer brand. Its integrated software and payments platform helps business owners in the wellness services industry run, market and build their businesses. MINDBODY enables the consumers to evaluate, engage, and transact with local businesses in its marketplace.
In May 2017, MINDBODY completed a follow-on public offering in which it issued and sold 5,060,000 shares of Class A common stock at a public offering price of $27.95 per share. MINDBODY received net proceeds of $134,709,000 after deducting underwriters' discounts and commissions of $6,718,000, but before deducting offering expenses of approximately $443,000.
Basis of Presentation and Consolidation
The accompanying unaudited condensed consolidated financial statements are presented in accordance with United States generally accepted accounting principles ("GAAP"), which include the accounts of MINDBODY and its wholly owned foreign subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP, and follow the requirements of the Securities and Exchange Commission ("SEC"), for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments that are necessary for a fair statement of the Company's financial information. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2017. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted under the rules and regulations of the SEC.
These condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2016 included in the Annual Report on Form 10-K (the "Annual Report"), which was filed with the SEC on March 1, 2017.
Use of Estimates
The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the capitalization and estimated useful life of the Company's capitalized internal-use software, useful lives of property and equipment, the determination of fair value of stock awards issued and forfeiture rates, a valuation allowance for deferred tax assets, contingencies, and the purchase price allocation of acquired businesses. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Changes in facts or circumstances may cause the Company to change its assumptions and estimates in future periods, and it is possible that actual results could differ from current or future estimates.
Concentration of Credit Risk

As of September 30, 2017, one customer represented 17% of the accounts receivable balance. As of December 31, 2016, one customer represented 15% of the accounts receivable balance. No single customer represented over 10% of revenue for any of the periods presented in the consolidated statements of operations.

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Summary of Significant Accounting Policies

There have been no material changes in the Company’s significant accounting policies, other than the adoption of Accounting Standards Update (ASU) 2016-09 described below under the heading Recently Adopted Accounting Pronouncements and in Note 9, as compared to the significant accounting policies described in the Company’s Annual Report.

Recently Adopted Accounting Pronouncements

On March 30, 2016, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance related to employee Share-Based Payment Transactions. The new guidance requires entities to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and provides guidance on the related cash flow presentation. The new guidance also allows entities to make an accounting policy election to either continue to estimate the total number of awards for which the requisite service period will not be rendered (as currently required) or to account for forfeitures when they occur. The new guidance also stipulates that the net settlement of an award for statutory tax withholding purposes would not result, by itself, in liability classification of the award provided that the amount withheld for taxes does not exceed the maximum statutory tax rate in the employees’ relevant tax jurisdictions. Effective January 1, 2017, we adopted this standard. In accordance with this standard, we elected to continue our historical approach of estimating forfeitures during the award vesting period. The adoption of this standard did not have a material effect on our consolidated financial statements for the three and nine months ended September 30, 2017.

Recently Issued Accounting Pronouncements

In May 2017, the FASB issued authoritative guidance related to employee Share-Based PaymentsTransactions. The new guidance clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this guidance are effective for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company intends to adopt the guidance on the effective date and does not expect the adoption of the new guidance to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued authoritative guidance related to Clarifying the Definition of a Business. The new guidance clarifies whether transactions should be accounted for as acquisitions of assets or businesses. To be considered a business, the assets in the transaction need to include an input and a substantive process that together significantly contribute to the ability to create outputs. Prior to the adoption of the new guidance, an acquisition or disposition would be considered a business if there were inputs, as well as processes that when applied to those inputs had the ability to create outputs. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt the guidance on the effective date and the adoption of the new guidance may have a material impact on the Company’s consolidated financial statements if it enters into future business combinations.

In January 2017, the FASB issued authoritative guidance related to Simplifying the Test for Goodwill Impairment. The new guidance simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. The standard is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company intends to adopt the guidance on the effective date and does not expect the adoption of the new guidance to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued authoritative guidance intended to improve financial reporting about leasing transactions. The new guidance requires entities to recognize assets and liabilities for leases with lease terms of more than 12 months. The new guidance also requires qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. The new guidance is effective for the Company beginning January 1, 2019. The Company is evaluating the impact of the new standard on its consolidated financial statements and anticipates recording certain operating leases on the balance sheet upon adoption.

In August 2016, the FASB issued authoritative guidance related to the Classification of Certain Cash Receipts and Cash Payments. The new guidance standardizes cash flow statement classification of certain transactions, including cash payments for debt prepayment or extinguishment, proceeds from insurance claim settlements, and distributions received from equity method investments. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The amendments in this update should be applied using a retrospective transition method to each period presented. If impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We will adopt the new standard as of January 1, 2018.

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In May 2014, the FASB issued authoritative guidance that provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services ("ASC 606"). ASC 606 also requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In April 2016, the FASB issued an update clarifying ASC 606, related to identifying performance obligations and licensing implementation guidance contained in ASC 606. In May 2016, the FASB issued an update that provides narrow scope improvements and practical expedients related to ASC 606. The improvements address completed contracts and contract modifications at transition, non-cash consideration, the presentation of sales taxes and other taxes collected from customers, and assessment of collectability when determining whether a transaction represents a valid contract. The Company is still in the process of evaluating the impact of adopting this new guidance on its revenue contracts including reviewing current accounting policies, evaluating new disclosure requirements, identifying appropriate changes to business processes, information technology systems, and internal controls to support revenue recognition, and disclosure under the new guidance. The Company has concluded that the new guidance will impact the Company's timing of expensing incremental costs of obtaining a contract, such as sales commissions. The Company has identified certain sale commission structures that will qualify for capitalization upon adoption of the new standard and is currently in the process of evaluating these sale commission structures, the magnitude of the impact, and the period over which to amortize these costs. The Company also has determined that another area of impact is revenue recognition on contracts which include contingent amounts of variable consideration that it was precluded from recognizing because of the requirement for amounts to be "fixed or determinable" under SAB Topic 13. It is expected that ASC 606 will require the Company to estimate these amounts. As a result, the Company will recognize revenue earlier under ASC 606 than it would have done under current guidance. The Company is still in the process of completing its assessment of the impact of adopting this new guidance on revenue recognition, but it is not expected to have a material impact. The Company will adopt this new guidance in the first quarter of 2018 by recognizing any cumulative effect on revenue in the opening balance of retained earnings.

## 2. FAIR VALUE MEASUREMENTS

The Company measures and reports its cash equivalents at fair value on a recurring basis. The Company's cash equivalents are invested in money market funds.

The following table sets forth the fair value of the Company's financial assets, by level within the fair value hierarchy (in thousands):

| | September 30, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | |
| Money market funds(1) | $220,226 | $ — | $— | $220,226 |
| Equity: | | | | |
| Acquisition-related contingent consideration(2) | $— | $ — | $5,142 | $5,142 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | |
| Money market funds(1) | $81,878 | $ — | $ — | $81,878 |

(1) The Company held certain assets that are required to be measured at fair value on a recurring basis, included in cash equivalents, which are held in money market funds. All such assets as of September 30,

2017 and December 31, 2016 were recorded based on Level 1 inputs.

(2) The contingent consideration related to the acquisition of Lymber (Note 4) is recorded as equity and is not subject to remeasurement. Fair value was based on significant inputs not observable in the market, which represents a Level 3 measurement within the fair value hierarchy. The Company determined the fair value of the contingent consideration by discounting payments that are calculated based on Lymber’s projected future gross profit scenarios using the Monte Carlo simulation. The significant inputs used in the fair value measurement of contingent consideration are the timing and amount of gross profit in the respective periods (Note 4) and the discount rate.

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There were no transfers of financial instruments between the three levels of the fair value hierarchy during the nine months ended September 30, 2017. As of September 30, 2017 and December 31, 2016, the Company did not have any assets or liabilities that were required to be measured at fair value on a nonrecurring basis.

3. BALANCE SHEET COMPONENTS

Property and Equipment, net

Property and equipment consisted of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Computer equipment | $ 20,333 | $ 17,262 |
| Leasehold improvements | 12,055 | 11,123 |
| Capitalized software development costs | 2,751 | 1,877 |
| Office equipment | 2,883 | 2,668 |
| Software licenses | 4,974 | 3,258 |
| Building, leased | 16,438 | 16,438 |
| Property and equipment, gross | 59,434 | 52,626 |
| Less: accumulated depreciation and amortization | (24,950 ) | (19,522 ) |
| Property and equipment, net | $ 34,484 | $ 33,104 |

Depreciation and amortization expense, excluding amortization of capitalized software and intangible assets, for the three months ended September 30, 2017 and 2016 was $1,921,000 and, $1,839,000 respectively. Depreciation and amortization expense, excluding amortization of capitalized software and intangible assets, for the nine months ended September 30, 2017 and 2016 was $5,725,000 and $5,190,000, respectively.

The Company capitalized software development costs of $774,000 and zero for the three months ended September 30, 2017 and 2016, respectively. The Company capitalized software development costs of $1,011,000 and $114,000 for the nine months ended September 30, 2017 and 2016, respectively. The Company amortized software development costs of $6,000 and $65,000 during the three months ended September 30, 2017 and 2016, respectively. The Company amortized software development costs of $20,000 and $220,000 during the nine months ended September 30, 2017 and 2016, respectively. The net book value of capitalized software development costs was $1,011,000 and $20,000 as of September 30, 2017 and December 31, 2016, respectively.

The Company occupies office space constructed under a build-to-suit lease arrangement for which the Company is considered the "deemed owner" for accounting purposes. As such, building costs were recorded to "Building, leased" within "Property and equipment, net" and a related financing obligation was recorded in April 2015, when the Company began to occupy the building.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Accrued payroll | $ 6,504 | $ 6,072 |
| Accrued vacation | 2,474 | 2,069 |
| Employee stock purchase plan contributions | 526 | 1,171 |
| Other liabilities | 1,353 | 1,158 |
| Total accrued expenses and other liabilities | $ 10,857 | $ 10,470 |

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4. BUSINESS COMBINATION

Lymber

On March 27, 2017, the Company completed the acquisition of substantially all of the assets of Lymber Wellness, Inc. ("Lymber"), a privately-held application programming interface ("API") partner that specializes in yield management solutions for class and appointment-based businesses. Lymber's technology enables business owners to set dynamic pricing parameters for class and appointment sessions. The technology identifies open class and appointment inventory, and automatically adjusts session prices in real-time to match supply and demand.

The total purchase consideration for these assets was $7,342,000, which included cash consideration of $2,200,000, of which $750,000 was held back to satisfy potential indemnification claims, of which $250,000 has been paid as of September 30, 2017, and $500,000 is included in other current liabilities; and contingent consideration with a fair value of approximately $5,142,000, of which $1,304,000 and $3,838,000 are expected to be earned in 2018 and 2019 respectively, payable in shares of the Company's Class A common stock. This consideration is contingent upon Lymber's product achieving certain levels of gross profit, measured annually, in 2018 and 2019, respectively, and the fair value of the equity classified contingent consideration was measured using a Monte Carlo simulation with various unobservable market data inputs, which are Level 3 measurements.

The acquisition of Lymber was accounted for in accordance with the acquisition method of accounting for business combinations with MINDBODY as the accounting acquirer. Acquisition-related costs incurred and expensed by the Company were immaterial and were included within general and administrative expenses on the consolidated statements of operations. Under the acquisition method of accounting, the total purchase consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. Goodwill of $2,544,000 was allocated to the Company's one operating segment and represents 35% of the total purchase consideration. Goodwill is primarily attributable to expanded market opportunities from selling and integrating Lymber's yield management solution with the Company's other offerings and the associated assembled workforce acquired. Goodwill is amortized over 15 years for tax purposes.

The acquisition provided the Company with acquired intangible assets representing internally developed software/technology. The fair value of the acquired intangible asset was determined based on the income approach and discounted cash flow/excess earnings method and is subject to amortization on a straight-line basis over its remaining useful life of five years.

The allocation of the purchase price consideration is as follows (in thousands):

| | Amount |
|---|---|
| Intangible asset – developed software/technology | $ 4,798 |
| Goodwill | 2,544 |
| Fair value of total purchase consideration | $ 7,342 |

The results of Lymber are included in the Company's consolidated statements of operations since the acquisition date, including revenues and net loss, and were not material. Pro forma results of operations have not been presented because the acquisition was not material to the Company's results of operations.

Contemporaneous to signing the purchase agreement, the stockholders of Lymber amended the existing company charter to effectively increase the distribution of ownership interest to existing stockholders who continued as employees with MINDBODY. The change in the ownership interest is viewed to have benefited MINDBODY, and as such, a portion of the contingent consideration discussed above is attributed to post-acquisition expense. The approximate fair value of this consideration is $2,547,000, of which $646,000 and $1,901,000 relate to the 2018 and 2019 earnouts, respectively. This post-acquisition expense is recorded as non-cash operating expense over the requisite service periods.

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HealCode

On September 1, 2016, the Company completed the acquisition of substantially all of the assets of HealCode LLC ("HealCode"), a privately held technology partner that creates web-based and mobile application widgets for the Company's subscribers. HealCode's "website widget" solutions enable the Company's subscribers to embed the MINDBODY class and appointment schedules within their web and social sites. The fair value of the acquired intangible asset was determined based on the income approach and discounted cash flow/excess earnings method and is subject to amortization on a straight-line basis over its remaining useful life.

The total purchase consideration of $5,388,000 consisted of the payment of $4,888,000 in cash, of which $750,000 is recorded in other current liabilities for purchase consideration which has been held back by the Company for a period of eighteen (18) months, payable March 1, 2018, to satisfy potential indemnification claims, and the issuance of 28,959 shares of the Company's Class A common stock at a total acquisition date fair value of $500,000.

The acquisition of HealCode was accounted for in accordance with the acquisition method of accounting for business combinations with MINDBODY as the accounting acquirer. The Company incurred and expensed de minimis acquisition-related costs, which are included within general and administrative expenses on the consolidated statements of operations. The acquisition provided the Company with acquired intangible assets representing internally developed software/technology. Under the acquisition method of accounting, the total purchase consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. Goodwill of $3,643,000 was allocated to the Company's one operating segment and represents 68% of the total purchase consideration. Goodwill is primarily attributable to expanded market opportunities from selling and integrating HealCode's "website widget" solution with the Company's other offerings and the associated assembled workforce acquired. Goodwill is amortized over 15 years for tax purposes.

The allocation of the purchase price consideration is as follows (in thousands):

| | Amount |
|---|---|
| Liabilities assumed | $(105 ) |
| Tangible assets acquired | 32 |
| Intangible asset – developed software/technology | 1,818 |
| Goodwill | 3,643 |
| Fair value of total purchase consideration | $5,388 |

The results of HealCode are included in the Company's consolidated statements of operations since the acquisition date, including revenues and net loss, and were not material. Pro forma results of operations have not been presented because the acquisition was not material to the Company's results of operations.

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually in the fourth quarter of the financial year. The Company has recorded goodwill and other intangible assets as a result of its business acquisitions of Lymber on March 27, 2017 and HealCode on September 1, 2016. The goodwill balance was $11,583,000 as of September 30, 2017 and $9,039,000 as of December 31, 2016. There have been no impairment charges recorded against goodwill.

The Company's intangible assets consisted of the following (in thousands except years):

| | September 30, 2017 | | | |
|---|---|---|---|---|
| | Useful Life (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Network list | 2 | $ 420 | $ (420 ) | $ — |
| Technology | 3 to 5 | 7,529 | (1,694 ) | 5,835 |
| Total intangible assets | | $ 7,949 | $ (2,114 ) | $ 5,835 |

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| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Useful Life (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Network list | 2 | $ 420 | $ (420 ) | $ — |
| Technology | 3 to 5 | 2,731 | (704 ) | 2,027 |
| Total intangible assets | | $ 3,151 | $ (1,124 ) | $ 2,027 |

Amortization expense for intangible assets with finite lives was $410,000 and $109,000 for the three months ended September 30, 2017 and 2016. Amortization expense for intangible assets with finite lives was $991,000 and $261,000 for the nine months ended September 30, 2017 and 2016.

The expected future annual amortization expense of intangible assets as of September 30, 2017 is presented below (in thousands):

| Year Ending December 31, | |
|---|---|
| 2017 (Remaining three months) | $412 |
| 2018 | 1,348 |
| 2019 | 1,322 |
| 2020 | 1,326 |
| 2021 | 1,201 |
| Thereafter | 226 |
| Total amortization expense | $5,835 |

6. DEBT

Credit Facility

On January 12, 2015, the Company entered into a loan agreement with Silicon Valley Bank for a secured revolving credit facility that allows the Company to borrow up to $20,000,000 for working capital and general business requirements. The Company has not drawn down any amounts under the loan . The loan agreement is set to expire in January 2018.

7. COMMITMENTS AND CONTINGENCIES

Operating Lease

The Company leases office facilities under various non-cancelable operating lease agreements with original lease periods expiring between 2017 and 2026. Rent expense was $1,705,000 and $1,219,000 for the three months ended September 30, 2017 and 2016, respectively. Rent expense was $4,575,000 and $3,515,000 for the nine months ended September 30, 2017 and 2016, respectively.

Financing Obligation

The Company occupies office space in San Luis Obispo, California, constructed under a 15 year build-to-suit lease arrangement for which the Company is considered the “deemed owner” for accounting purposes. The lease has an initial term of 15 years and the Company has an option to extend the term of the lease for three consecutive terms of five years each. The portion of the lease obligation allocated to the building for accounting purposes is being treated as a financing obligation. The portion of the lease obligation allocated to the land for accounting purposes is being treated as an operating lease. The financing obligation is being settled through the monthly lease payments. In the table below, the remaining future minimum lease payments on the building, leased, include interest of $9,400,000 to be recognized over the remainder of the initial term of the lease agreement. The total financing obligation as of September 30, 2017 is $15,562,000, of which $496,000 is recorded as a current obligation.

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Future Minimum Lease Payments

Future minimum lease payments under non-cancelable lease agreements as of September 30, 2017 were as follows (in thousands):

| Year Ending December 31, | Operating Leases | Financing Obligation, Building-Leased | Total |
|---|---|---|---|
| 2017 (Remaining three months) | $ 1,061 | $ 411 | $1,472 |
| 2018 | 4,571 | 1,679 | 6,250 |
| 2019 | 4,503 | 1,729 | 6,232 |
| 2020 | 4,463 | 1,781 | 6,244 |
| 2021 | 3,824 | 1,835 | 5,659 |
| Thereafter | 11,519 | 17,527 | 29,046 |
| Total minimum lease payments | $ 29,941 | $ 24,962 | $54,903 |

Purchase Commitments

Future unconditional purchase commitments for software subscriptions and data center and communication services as of September 30, 2017 were as follows (in thousands):

| Year Ending December 31, | |
|---|---|
| 2017 (Remaining three months) | $687 |
| 2018 | 3,477 |
| 2019 | 1,942 |
| 2020 | 586 |
| Total minimum purchase commitments | $6,692 |

Litigation

From time to time, the Company may become involved in legal proceedings, claims, and litigation arising in the ordinary course of business. Management is not currently aware of any matters that it expects will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

8. COMMON STOCK AND STOCKHOLDER'S EQUITY

Common Stock

Immediately prior to the completion of MINDBODY's initial public offering ("IPO"), all outstanding shares of common stock were reclassified into 11,305,355 shares of Class B common stock and the Company's certificate of incorporation was amended and restated to authorize the Company to issue 1,000,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock, each with a par value of $0.000004 per share. The amended and restated certificate of incorporation also:

- established that, on any matter that is submitted to a vote of the stockholders, the holder of each share of Class A common stock is entitled to 1 vote per share, while the holder of each share of Class B common stock is entitled to 10 votes per share;
- established that shares of Class B common stock are convertible into shares of Class A common stock at the option of the holder and automatically convert into shares of Class A common stock upon transfer, subject to limited exceptions; and
- established that, except with respect to voting and conversion rights, as discussed above, the rights of the holders of Class A and Class B common stock are identical.

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Following the IPO, the number of shares of the Company's Class A common stock has increased, with an associated decrease in the number of shares of the Company's Class B common stock, primarily as a result of the conversion of shares of the Company's Class B common stock held by pre-IPO investors and stockholders into shares of the Company's Class A common stock. In addition, in May 2017, the number of shares of Class A common stock increased as a result of the issuance of 5,060,000 shares of Class A common stock in the Company's follow-on public offering.

2015 Equity Incentive Plan

The Company's 2015 Equity Incentive Plan (the "2015 Plan") became effective on June 17, 2015 and serves as the successor to the Company's 2009 Stock Option Plan (the "2009 Plan"). As of September 30, 2017, there were 5,735,238 shares of Class A common stock available for issuance under the 2015 Plan. The number of shares available for issuance under the 2015 Plan includes an annual increase on the first day of each fiscal year beginning in 2016, equal to the lesser of 3,915,682 shares, 5% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year, or such other amount as the Company's board of directors or compensation committee may determine. Accordingly, effective as of January 1, 2017, the number of shares available for issuance under the 2015 Plan was increased by 2,029,912 shares of Class A common stock. All stock options under the 2015 Plan have a term of no greater than ten years from the date of grant. As of September 30, 2017, options to purchase 1,231,833 shares of Class A common stock and 1,293,518 restricted stock units ("RSUs") of Class A common stock remained outstanding under the 2015 Plan.

The 2015 Plan provides for the grant of non-statutory stock options, restricted stock awards ("RSAs"), RSUs, stock appreciation rights, performance units and performance shares to the Company's employees, directors and consultants and its parent and subsidiary corporations' employees and consultants. Neither RSAs nor RSUs require payment from the employee or service provider. Each RSA and RSU represents the right to receive one share of the Company's Class A common stock upon vesting or settlement, as applicable. The RSUs generally vest over a period of approximately four years. These awards are contingent upon the related employees' continuous employment with the Company. As such, compensation expense is being recorded over the requisite service period of approximately four years.

The acquisition of Fitness Mobile Apps on February 2, 2015 included an obligation to issue up to 207,234 shares of the Company's Class A common stock to certain former employees of Fitness Mobile Apps, contingent upon performance obligations and continuous employment with the Company. During the year ended December 31, 2016, this contingency was satisfied and 207,234 shares were issued pursuant to the 2015 Plan and were fully vested on February 22, 2016. The related stock-based compensation expense was recorded ratably over the respective service period that ended during the year ended December 31, 2016.

2015 Employee Stock Purchase Plan

The Company's 2015 Employee Stock Purchase Plan (the "ESPP") became effective on June 2, 2015. As of September 30, 2017, there were 1,032,725 shares of Class A common stock available for issuance under the ESPP. The number of shares available for issuance under the ESPP includes an annual increase on the first day of each fiscal year beginning in 2016, equal to the lesser of 783,136 shares, 1% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year, or such other amount as the Company's board of directors or compensation committee may determine. Accordingly, effective as of January 1, 2017, the number of shares available for issuance under the ESPP was increased by 405,982 shares of Class A common stock.

Under the ESPP, eligible employees are granted options to purchase shares of Class A common stock through payroll deductions. The ESPP provides for 24-month offering periods. Each offering period includes four purchase periods, which are approximately six-month periods commencing with one exercise date and ending with the next exercise date. At the end of each purchase period, employees are able to purchase shares at 85% of the lower of the fair market value of the Class A common stock on the first trading day of each offering period or the end of each six-month purchase period. New offering periods commence every six months on or about February 21 and August 21 of each year. The Company commenced its first offering period under the ESPP on June 18, 2015. Employees purchased 271,451 shares of Class A common stock for an aggregate cost of $3,238,421 under the ESPP during the nine months ended September 30, 2017.

2009 Stock Option Plan

The 2009 Plan, which provides for the grant of incentive stock options, non-statutory stock options, and restricted stock to employees, directors, and consultants terminated on June 18, 2015. Accordingly, no shares were available for issuance under the 2009 Plan after that time. The 2009 Plan continues to govern outstanding awards granted thereunder. As of September 30, 2017, options to purchase 2,604,513 shares of Class B common stock remained outstanding under the 2009 Plan.

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RSU and RSA Activity

A summary of the activity for the Company’s RSUs and RSAs is presented below (in thousands, except share numbers, per share amounts, and contractual term):

| | Number of Shares | Weighted-Average Grant Date Fair Value (per share) | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Unvested balance – December 31, 2016 | 743,693 | $ 14.49 | 3.8 | $ 15,841 |
| Granted | 865,286 | 26.40 | | |
| Vested | (199,829 ) | 13.91 | | |
| Forfeited | (115,632 ) | 18.24 | | |
| Unvested balance – September 30, 2017 | 1,293,518 | $ 22.21 | 3.2 | $ 33,437 |

As of September 30, 2017, there was a total of $25,475,000 in unrecognized compensation cost related to unvested RSUs, which is expected to be recognized over a weighted average period of approximately 3.2 years.

Stock Option Activity

A summary of the activity for the Company’s stock option plans during the reporting periods and a summary of information related to options vested and expected to vest and options exercisable are presented below (in thousands, except shares, per share amounts, contractual life):

| | Options Outstanding | | | | |
|---|---|---|---|---|---|
| | Number of Shares Underlying Outstanding Options | Weighted-Average Exercise Price | Weighted-Average Grant Date Fair Value | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
| Outstanding – December 31, 2016 | 3,843,276 | $ 10.93 | | 7.5 | $ 39,902 |
| Granted | 713,983 | 25.09 | $ 10.71 | | |
| Exercised | (513,330 ) | 10.98 | | | 7,636 |
| Forfeited or cancelled | (207,583 ) | 16.41 | | | |
| Outstanding – September 30, 2017 | 3,836,346 | $ 13.26 | | 7.2 | $ 48,482 |
| Exercisable – September 30, 2017 | 2,143,685 | $ 9.05 | | 6.1 | $ 36,016 |
| Vested and expected to vest – September 30, 2017 | 3,770,202 | $ 13.13 | | 7.1 | $ 48,143 |

The total fair value of options vested during the three and nine months ended September 30, 2017 was $977,000 and $3,670,000, respectively, and during the three and nine months ended September 30, 2016 was $1,190,000 and $4,277,000, respectively.

As of September 30, 2017, the total unrecognized stock-based compensation expense for unvested stock options, net of expected forfeitures, was $12,653,000, which is expected to be recognized over a weighted-average period of 2.5 years.

Other Stock-Based Compensation

During the three months ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense of $265,000 and zero, respectively, attributed to post-acquisition services that are payable in shares of the Company’s common stock. During the nine months ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense of $543,000 and $271,000, respectively, attributed to post-acquisition services that are payable in shares of the Company’s common stock.

Stock-Based Compensation

We record stock-based compensation based on the fair value of stock options on grant date using the Black-Scholes option-pricing model. We determine the fair value of shares of common stock to be issued under the ESPP using the Black-Scholes option-pricing model.

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The following table summarizes the assumptions used in the Black-Scholes option-pricing model to determine the fair value of stock options granted:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Expected term (in years) | 5.8 | 5.8 |
| Expected volatility | 40% - 44% | 44% - 45% |
| Risk-free interest rate | 1.8% - 2.0% | 1.2% - 1.5% |
| Dividend yield | 0% | 0% |

The following table summarizes the assumptions used in the Black-Scholes option-pricing model to determine fair value of our common shares to be issued under the ESPP:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Expected term (in years) | 0.5 - 2.0 | 0.5 - 2.0 |
| Expected volatility | 31% - 50% | 39% - 50% |
| Risk-free interest rate | 0.5% - 1.3% | 0.5% - 0.8% |
| Dividend yield | 0% | 0% |

Total Stock-Based Compensation Expense

Total stock-based compensation expense related to stock options, ESPP, RSUs and RSAs is included in the consolidated statements of operations as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Cost of revenue | $287 | $231 | $914 | $666 |
| Sales and marketing | 836 | 613 | 2,013 | 1,636 |
| Research and development | 1,167 | 490 | 2,674 | 1,456 |
| General and administrative | 1,625 | 975 | 4,324 | 2,848 |
| Total stock-based compensation expense | $3,915 | $2,309 | $9,925 | $6,606 |

9. INCOME TAXES

The Company recorded an income tax expense of $83,000 and $343,000 for the three and nine months ended September 30, 2017. This tax expense is largely attributable to the deferred tax liability associated with the amortization of indefinite lived intangible assets and foreign income taxes associated with the Company’s operations in the United Kingdom and Australia. The Company continues to maintain a valuation allowance for its U.S. federal and state deferred tax assets.

The Company’s effective federal tax rate for the three and nine months ended September 30, 2017 was negative 2.3% and negative 3.0%, respectively, primarily as a result of tax amortization of indefinite lived intangible assets.

The Company adopted ASU 2016-09 during the first quarter of 2017 as stipulated in the FASB guidance for publicly-traded entities. To account for the adoption of ASU 2016-09, the Company accounted for previously unrecognized excess tax benefits by recognizing those benefits during the first quarter of 2017. Due to the Company’s full valuation allowance, the adoption of the new guidance did not materially impact the Company’s financial statements.

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10. NET LOSS PER SHARE

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders for the periods presented (in thousands, except per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net loss attributable to common stockholders | $(3,630) | $(5,895) | $(11,914) | $(19,039) |
| Net loss per share attributable to common stockholders, basic and diluted | $(0.08) | $(0.15) | $(0.27) | $(0.48) |
| Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted | 46,460 | 39,965 | 43,475 | 39,708 |

Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss. The following shares have been excluded from the calculation of diluted net loss per share attributable to common stockholders for each period presented because they are anti-dilutive:

| | As of September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Shares subject to outstanding stock options and employee stock purchase plan | 3,875,630 | 4,093,778 |
| Shares subject to outstanding restricted stock units | 1,293,518 | 718,153 |
| Total | 5,169,148 | 4,811,931 |

11. SEGMENTS AND INFORMATION BY GEOGRAPHIC LOCATION

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Further, there is one business activity, and there are no segment managers who are held accountable for operations, operating results, and plans for levels, components, or types of products or services below the consolidated unit level. Accordingly, the Company has a single operating and reporting segment.

Revenue

The following table presents the Company's total revenue by category (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue: | | | | |
| Subscription and services | $28,283 | $21,185 | $79,228 | $60,554 |
| Payments | 17,786 | 13,484 | 52,155 | 38,540 |
| Product and other | 543 | 593 | 1,550 | 1,736 |
| Total revenue | $46,612 | $35,262 | $132,933 | $100,830 |

The following table presents the Company's total revenue by geography based on the billing address of the customer (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| United States | $37,284 | $29,000 | $107,295 | $83,639 |

| | | | | |
|---|---|---|---|---|
| Other | 9,328 | 6,262 | 25,638 | 17,191 |
| Total | $46,612 | $35,262 | $132,933 | $100,830 |

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Substantially all of the Company's assets were attributable to operations in the United States as of September 30, 2017 and December 31, 2016.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included in Item 1A of Part II of this Quarterly Report on Form 10-Q.

### Overview

We are the leading provider of cloud-based business management software for the wellness services industry and a growing consumer brand, with approximately 59,000 local business subscribers on our platform in over 130 countries and territories. These subscribers provide a variety of wellness services to approximately 40 million active consumers as of September 30, 2017. We are also a leading payments platform dedicated to the wellness services industry transacting approximately $2.0 billion and $1.6 billion on our payments platform for the three months ended September 30, 2017 and 2016, respectively, representing a 23% increase year over year.

We primarily market and sell subscriptions for our integrated cloud-based business management software and payments platform to small and medium-sized businesses in the wellness services industry, including boutique fitness businesses, spas, salons, and integrative health businesses.

We offer our software platform to our subscribers as a subscription-based service. In the first quarter of 2017, we refined our subscriber growth strategy to focus on high value subscribers, which we define as subscribers of our Starter, Pro, Accelerate and Ultimate software levels. In connection with this strategy, as of January 1, 2017, we stopped actively selling subscriptions of our Solo software level to new subscribers and increased the monthly subscription pricing across all other software levels for new subscribers. We also increased monthly subscription pricing across all of our software levels for existing subscribers without long term contracts, which has been and will continue to be rolled out over the course of 2017. In addition, in the first nine months of 2017, we focused subscriber growth in the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Hong Kong, and Singapore.

In May 2017, we completed a follow-on public offering in which we issued and sold 5,060,000 shares of Class A common stock at a public offering price of $27.95 per share. We received net proceeds of $134.7 million after deducting underwriters' discounts and commissions of $6.7 million, but before deducting offering expenses of approximately $0.4 million.

We intend to continue scaling our organization in order to meet the needs of our subscribers. We have invested and expect to continue to invest in our sales and marketing teams to sell our platform globally, including, in particular, to high value subscribers in the countries noted above. A key element of our growth strategy is the continuous enhancement and expansion of our software and payments platform by developing and implementing new features and functionality. Through consistent innovation and strategic acquisitions, we have increased both the number of high value subscribers and the revenue we generate from our subscribers over time.

We plan to continue to enhance our software architecture and enhance and expand our platform through ongoing investments in research and development and sales and marketing, and by pursuing strategic acquisitions of complementary businesses and technologies that will enable us to continue to drive growth in the future. For example, in connection with our recent acquisition of Lymber Wellness, Inc., we are making investments to deepen our integration of yield management technology into our platform and to promote subscriber and consumer adoption.

We also expect to continue to make investments in both our data center infrastructure and our customer service and subscriber onboarding teams to meet the needs of our growing user base. While these areas represent significant opportunities for us, we also face significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. Due to our continuing investments to grow our business in preparation for our expected increase in sales, we are continuing to incur expenses in the near term from which we may not realize any long-term benefit. In addition, any investments that we make in sales and marketing or other areas will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas.

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Set forth below are summary financial highlights for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Change | Nine Months Ended September 30, | | Change |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | % | 2017 | 2016 | % |
| | (dollars in millions) | | | | | |
| Revenue | $46.6 | $35.3 | 32 % | $132.9 | $100.8 | 32 % |
| Net loss | (3.6 ) | (5.9 ) | | (11.9 ) | (19.0 ) | |
| Adjusted EBITDA(1) | $2.5 | $(1.1 ) | | $5.3 | $(5.4 ) | |

(1) For a reconciliation of Adjusted EBITDA to net loss, see the section below titled "Non-GAAP Financial Measure."

During the nine months ended September 30, 2017 and 2016, approximately 81% and 83% of our revenue came from the United States, respectively.

Our employee headcount increased to 1,440 employees as of September 30, 2017, from 1,344 as of September 30, 2016, of which approximately 29% are engaged in supporting existing subscribers and approximately 51% are engaged in increasing our subscriber base, growing our consumer brand or developing future products.

In this Quarterly Report on Form 10-Q, when we use the term "active consumers" as of a given date, we are referring to the estimated number of unique consumers of our subscribers' services who have used our platform to transact with our subscribers during the two years ending on such date.  While we do not directly monetize consumers of our subscribers' services, we believe that growth in the number of active consumers on our platform also contributes to our subscriber growth.  For a discussion of risks related to our calculation of active consumers, see the section titled "Risk Factors - The number of actual consumers using our platform may be lower than the number we have estimated."

Key Metrics

We regularly review the following key metrics to measure our performance, identify trends affecting our business, formulate financial projections, make strategic business decisions and assess working capital needs.

| | As of and for the Three Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Subscribers (end of period) | 59,028 | 58,566 |
| Average monthly revenue per subscriber | $259 | $204 |
| Payments volume (in billions) | $2.0 | $1.6 |
| Dollar-based net expansion rate (end of period) | 106 % | 115 % |

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- Subscribers. Subscribers are defined as unique physical business locations or individual practitioners who have active subscriptions to our platform as of the end of the period. We believe the number of subscribers is one indicator of the growth of our platform, but the revenue contribution of individual subscribers can vary widely. For example, the vast majority of our revenue is generated from our high value subscribers. The number of subscribers on our Solo software level decreased from 7,994 as of September 30, 2016, to 4,370 as of September 30, 2017, and the number of our high value subscribers increased from 50,572 as of September 30, 2016, to 54,658 as of September 30, 2017. Growth in the number of our high value subscribers depends, in part, on our ability to successfully develop and market our platform to wellness businesses and consumers who have not yet become part of our network. While growth in the number of subscribers can be an important indicator of expected revenue growth, it also informs our management's decisions with respect to the areas of our business that will require further investment in order to support expected future growth. For example, as the number of high value subscribers increases, we may need to increase the headcount in our customer support organization, as well as increase our IT infrastructure capital expenditures in order to maintain the effectiveness of our platform and the performance of our software for our subscribers and consumers. The number of subscribers, including our high value subscribers, has increased year over year, and we expect the number of high value subscribers to continue to increase over time, however our overall subscriber count may decline in the near term as we continue to execute on our growth strategy. In addition, the impact of our subscriber growth strategy has and could continue to cause the total number of subscribers to fluctuate from quarter to quarter. For example, as of January 1, 2017, we stopped actively selling subscriptions of our Solo software level to new subscribers and increased the monthly subscription pricing across all other software levels for new subscribers. We also increased monthly subscription pricing across all of our software levels for existing subscribers without long term contracts, which has been and will continue to be rolled out over the course of 2017. In addition, we concentrated our subscriber growth strategy on high value subscribers in specific countries, all of which we believe contributed to a sequential decrease in the total number of subscribers by 317, with a sequential increase in the total number of our high value subscribers by 292, as of September 30, 2017. The growth rate of the number of subscribers declined as of September 30, 2017 compared to September 30, 2016 and may continue to do so in the future as we execute on our growth strategy and we make changes to our pricing and subscription offerings.
- Average Monthly Revenue per Subscriber. We believe that our ability to increase the average monthly revenue per subscriber, which we also refer to as ARPS, is an indicator of our ability to increase the long-term value of our existing subscriber relationships. ARPS is calculated by dividing the subscription and services and payments revenue generated in a given month by the number of subscribers at the end of the previous month. For periods greater than one month, ARPS is the sum of the average monthly revenue per subscriber for each month in the applicable period, divided by the number of months in the period. For example, the ARPS measurement period in the table above was measured over each of the three months ended September 30, 2017 and 2016. ARPS increased for the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and we expect it to continue to increase in the future, although we expect the growth rate to fluctuate over time.
- Payments Volume. We believe that payments volume is an indicator of the underlying current health of our subscribers' businesses and of consumer spending trends as well as being a major driver of our payments revenue. Payments volume is the total dollar volume of transactions between our subscribers and consumers utilizing our payments platform. Payments volume increased for the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and we expect it to continue to increase in the future. The growth rate in payments volume decreased for the three months ended September 30, 2017 compared to the three months ended September 30, 2016, and we expect it to fluctuate over time.
- Dollar-Based Net Expansion Rate. Our business model focuses on maximizing the lifetime value of a subscriber relationship. We can achieve this by focusing on delivering value and functionality that retains our existing subscribers and by expanding the revenue derived from our subscribers over the lifetime of the relationship by selling higher value subscriptions to subscribers on lower software levels, through the utilization of our premium customer support offering, by increasing the value of transactions processed

through our payments platform, and through services provided by our application programming interface, or API, and technology partners. We assess our performance in this area by measuring our dollar-based net expansion rate. Our dollar-based net expansion rate provides a measurement of our ability to increase revenue across our existing customer base, offset by churn, downgrades in subscriptions, reduction in services utilization and reductions in the value of transactions that our subscribers process through our payments platform. Our dollar-based net expansion rate is based upon our monthly subscription and services and payments revenue for a set of subscriber accounts. We calculate our dollar-based net expansion rate by dividing our retained revenue net of contraction and churn by

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our base revenue. We define our base revenue as the aggregate monthly subscription and services and payments revenue of our subscriber base as of the date one year prior to the date of calculation. We define our retained revenue net of contraction and churn as the aggregate monthly subscription and services and payments revenue of the same subscriber base included in our measure of base revenue at the end of the period being measured. We expect our dollar based net expansion rate to fluctuate over time.

Non-GAAP Financial Measure

Adjusted EBITDA

To provide investors with additional information regarding our financial results prepared in accordance with U.S. generally accepted accounting principles, or GAAP, we have presented Adjusted EBITDA, which is a non-GAAP financial measure defined by us as our net loss before stock-based compensation expense, depreciation and amortization, provision for income taxes, and other income (expense), net, which consisted of interest income (expense), net, and other income (expense), net. We have provided below a reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure. We have presented Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short and long-term operational plans. In particular, we believe that the exclusion of the amounts eliminated in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

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

- Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) the potentially dilutive impact of stock-based compensation; or (3) tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA excludes stock-based compensation expense, which has been and will continue to be for the foreseeable future a significant recurring expense in our business; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA along with other GAAP-based financial performance measures, including various cash flow metrics, net loss, and our GAAP financial results. The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Net loss | $(3,630) | $(5,895) | $(11,914) | $(19,039) |
| Stock-based compensation expense | 3,915 | 2,309 | 9,925 | 6,606 |
| Depreciation and amortization | 2,337 | 2,013 | 6,736 | 5,671 |
| Provision for income taxes | 83 | 142 | 343 | 279 |
| Other (income) expense, net | (217) | 351 | 181 | 1,091 |
| Adjusted EBITDA | $2,488 | $(1,080) | $5,271 | $(5,392) |

Components of Statements of Operations

Revenue

We generate revenue primarily from providing an integrated cloud-based business management software and payments platform for the wellness services industry. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured.

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Our total revenue consists of the following:

- Subscription and services. Subscription and services revenue is generated primarily from sales of subscriptions to our cloud-based business management software for the wellness services industry. The majority of subscription fees are prepaid by subscribers on a monthly basis via a credit card and, to a lesser extent, billed to subscribers on an annual or quarterly basis. Additionally, our subscribers can choose to enter into a separate contract with our technology partners to purchase additional features and functionality. We receive a revenue share from these arrangements from our technology partners, which is recognized when earned. We also earn revenue from API partners for subscriber site access, data query, and consumer bookings through our platform. The revenue from API partners is recognized when earned. Subscription revenue is recognized ratably over the term of the subscription agreement. Amounts invoiced in excess of revenue recognized are deferred. Service revenue is generated primarily through our premium customer support offering and is recognized in the period in which it is earned. We expect our subscription and services revenue to increase over time as we increase the number of our subscribers, the average monthly subscription revenue per subscriber, and our revenue from our technology and API partners.
- Payments. We earn payments revenue from revenue share arrangements with third-party payment processors on transactions between our subscribers who utilize our payments platform and their consumers. These payment transactions are generally related to purchases of classes, memberships, goods or services through a subscriber's website, at its business location, and through the MINDBODY app. These transaction fees are recorded as revenue on a net basis when the payment transactions occur. We expect our payments revenue to increase in absolute dollars as we add new subscribers who utilize our payments platform and as existing subscribers increase the volume of transactions that they process through our payments platform.
- Product and other. We offer various point-of-sale system products and physical gift cards to our subscribers. Product and other revenue is recognized upon the delivery of these products to our subscribers.

Cost of Revenue

Cost of revenue primarily consists of costs associated with personnel and related infrastructure for operation of our cloud-based business management platform, data center operations, global customer support and onboarding services, payment processing for subscribers that pay via credit card, and allocated overhead. Personnel costs consist of salaries, benefits, bonuses and stock-based compensation. Overhead consists of certain facilities costs, depreciation expense, amortization expense associated with acquired intangible assets, information technology costs, and impairment charges for acquired intangible assets and internally developed software.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development, and general and administrative expenses.

- Sales and marketing. Sales and marketing expense consists primarily of personnel costs, including salaries, benefits, bonuses, stock-based compensation and commission costs for our sales and marketing personnel. Sales and marketing expense also includes costs for market development programs, advertising, lead generation, promotional and other marketing activities, and allocated overhead. Sales and marketing expense is our largest operating expense, driving growth in subscribers, ARPS and consumer adoption, and we expect to continue to increase this expense in absolute dollars as we increase our sales and marketing efforts, although such expense may fluctuate as a percentage of total revenue. For instance, this year we held BOLD, our annual customer conference in the third quarter, instead of the fourth quarter as in previous years, which resulted in a significant year over year increase in sales and marketing expense for the third quarter of 2017.
- Research and development. Research and development expense consists primarily of personnel costs, including salaries, benefits, bonuses, and stock-based compensation for our development personnel. Research and development expense also includes outsourced software development costs and allocated overhead. We expect research and development expense to continue to increase in absolute dollars as we continue to invest in our research and product development efforts to enhance our product capabilities and access new markets, although such expense may fluctuate as a percentage of total revenue.

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- General and administrative. General and administrative expense consists primarily of personnel costs, including salaries, benefits, bonuses, and stock-based compensation for our executive, finance, legal, human resources, information technology, and other administrative personnel. General and administrative expense also includes consulting, legal and accounting services and allocated overhead. We expect general and administrative expense to continue to increase in absolute dollars as we grow our operations and operate as a public company, although we expect such expense to continue to decline as a percentage of total revenue.

Other Income and Expenses

Our other income and expenses line items consist of interest income (expense), net, and other income (expense), net.

- Interest income (expense), net. Interest income (expense), net, consists primarily of the interest incurred on the financing obligation associated with our build-to-suit lease arrangement and interest earned on our cash and cash equivalent balances. We entered into a loan agreement with Silicon Valley Bank in 2015 for a secured revolving credit facility and any future draws on this loan agreement will incur interest expense and result in increased interest expense in future periods. This loan agreement expires in January 2018.
- Other income (expense), net. Other income (expense), net, consists primarily of gains and losses on disposals of property and equipment, gains and losses from foreign currency transactions, and other income and expenses.

Provision for Income Taxes

Provision for income taxes consists primarily of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions in which we conduct business. We have a full valuation allowance for U.S. deferred tax assets, including net operating loss carryforwards. We expect to maintain this full valuation allowance for the foreseeable future.

Results of Operations

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Consolidated Statements of Operations Data: | | | | |
| Revenue | $46,612 | $35,262 | $132,933 | $100,830 |
| Cost of revenue[1] | 13,123 | 10,972 | 37,880 | 31,657 |
| Gross profit | 33,489 | 24,290 | 95,053 | 69,173 |
| Operating expenses: | | | | |
| Sales and marketing[1] | 18,514 | 14,599 | 52,210 | 41,534 |
| Research and development[1] | 8,976 | 7,747 | 26,426 | 22,758 |
| General and administrative[1] | 9,763 | 7,346 | 27,807 | 22,550 |
| Total operating expenses | 37,253 | 29,692 | 106,443 | 86,842 |
| Loss from operations | (3,764) | (5,402) | (11,390) | (17,669) |
| Interest income (expense), net | 172 | (261) | (125) | (865) |
| Other income (expense), net | 45 | (90) | (56) | (226) |
| Loss before provision for income taxes | (3,547) | (5,753) | (11,571) | (18,760) |
| Provision for income taxes | 83 | 142 | 343 | 279 |
| Net loss | $(3,630) | $(5,895) | $(11,914) | $(19,039) |

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (as a percentage of revenue) | | | |
| Consolidated Statements of Operations Data: | | | | |
| Revenue | 100 % | 100 % | 100 % | 100 % |
| Cost of revenue | 28 % | 31 % | 28 % | 31 % |
| Gross profit | 72 % | 69 % | 72 % | 69 % |
| Operating expenses: | | | | |
| Sales and marketing | 40 % | 41 % | 39 % | 41 % |
| Research and development | 19 % | 22 % | 20 % | 23 % |
| General and administrative | 21 % | 21 % | 21 % | 22 % |
| Total operating expenses | 80 % | 84 % | 80 % | 86 % |
| Loss from operations | (8 )% | (15 )% | (8 )% | (17 )% |
| Interest income (expense), net | — % | (1 )% | — % | (1 )% |
| Other income (expense), net | — % | — % | — % | — % |
| Loss before provision for income taxes | (8 )% | (16 )% | (8 )% | (18 )% |
| Provision for income taxes | — % | (1 )% | (1 )% | (1 )% |
| Net loss | (8 )% | (17 )% | (9 )% | (19 )% |

(1) Cost of revenue and operating expenses include stock-based compensation expense as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Cost of revenue | $287 | $231 | $914 | $666 |
| Sales and marketing | 836 | 613 | 2,013 | 1,636 |
| Research and development | 1,167 | 490 | 2,674 | 1,456 |
| General and administrative | 1,625 | 975 | 4,324 | 2,848 |
| Total stock-based compensation expense | $3,915 | $2,309 | $9,925 | $6,606 |

Comparison of the three and nine months ended September 30, 2017 and 2016

Revenue

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | $ | % | 2017 | 2016 | $ | % |
| | (dollars in thousands) | | | | | | | |
| Revenue: | | | | | | | | |
| Subscription and services | $28,283 | $21,185 | $7,098 | 34 % | $79,228 | $60,554 | $18,674 | 31 % |
| Payments | 17,786 | 13,484 | 4,302 | 32 % | 52,155 | 38,540 | 13,615 | 35 % |
| Product and other | 543 | 593 | (50 ) | (8 )% | 1,550 | 1,736 | (186 ) | (11 )% |
| Total revenue | $46,612 | $35,262 | $11,350 | 32 % | $132,933 | $100,830 | $32,103 | 32 % |

Revenue increased $11.4 million, or 32%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Subscription and services revenue increased $7.1 million, or 34%, of which $6.4 million was due to pricing increases, the increased adoption of our subscriber-branded app, and an improvement in the mix to high value subscribers. Payments revenue increased $4.3 million, or 32%, due to an increase in the volume of transactions processed by our subscribers combined with an increase in the number of subscribers that utilize our payments platform as well as an increase in the value retained from payments transactions.

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Revenue increased $32.1 million, or 32%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Subscription and services revenue increased $18.7 million, or 31%, of which $18.1 million was due to pricing increases, the increased adoption of our subscriber-branded app, and an improvement in the mix of subscribers. Payments revenue increased $13.6 million, or 35%, due to an increase in the volume of transactions processed by our subscribers combined with an increase in the number of subscribers that utilize our payments platform as well as an increase in the value retained from payments transactions.

Cost of Revenue and Gross Margin

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | $ | % | 2017 | 2016 | $ | % |
| | (dollars in thousands) | | | | | | | |
| Cost of revenue | $13,123 | $10,972 | $2,151 | 20% | $37,880 | $31,657 | $6,223 | 20% |
| Gross margin | 72 % | 69 % | | | 72 % | 69 % | | |

Cost of revenue increased $2.2 million, or 20%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase was primarily attributable to a $1.5 million increase in personnel-related expenses, a $0.3 million increase in infrastructure costs to support the growing number of subscribers, and a $0.3 million increase in amortization of acquired intangible assets.

Cost of revenue increased $6.2 million, or 20%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase was primarily attributable to a $3.8 million increase in personnel-related expenses, a $1.6 million increase in infrastructure costs to support the growing number of subscribers, and a $0.8 million increase in amortization of acquired intangible assets.

As of September 30, 2017, we had 535 employees dedicated to data center operations, global customer support and onboarding services as compared to 490 employees as of September 30, 2016.

The increase in gross margin, or gross profit as a percentage of revenue, during the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 was primarily driven by revenue growing faster than the cost of revenue to support the additional revenue.

Operating Expenses

Sales and Marketing

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | $ | % | 2017 | 2016 | $ | % |
| | (dollars in thousands) | | | | | | | |
| Sales and marketing | $18,514 | $14,599 | $3,915 | 27% | $52,210 | $41,534 | $10,676 | 26% |

Sales and marketing expense increased $3.9 million, or 27%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase was primarily attributable to a $2.1 million increase in personnel-related expenses, which includes $0.2 million in stock-based compensation expense, due to an increase in the average headcount as we expanded our sales efforts to increase both the number of high value subscribers and average revenue per subscriber, and a $1.9 million increase in promotional spending and indirect marketing programs including our annual BOLD conference which was held in the third quarter this year versus the fourth quarter in the prior year.

Sales and marketing expense increased $10.7 million, or 26%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase was primarily attributable to a $7.8 million increase in personnel-related expenses, which includes $0.4 million in stock-based compensation expense, due to an increase in the average headcount as we expanded our sales efforts to increase both the number of high value subscribers and average revenue per subscriber, and a $2.5 million increase in promotional spending and indirect marketing programs including our annual BOLD conference which was held in the third quarter this year versus the fourth quarter in the prior year.

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As of September 30, 2017, we had 508 employees dedicated to sales and marketing as compared to 500 employees as of September 30, 2016.

Research and Development

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | $ | % | 2017 | 2016 | $ | % |
| | (dollars in thousands) | | | | | | | |
| Research and development | $8,976 | $7,747 | $1,229 | 16% | $26,426 | $22,758 | $3,668 | 16% |

Research and development expense increased $1.2 million, or 16%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase was primarily attributable to an increase in average headcount and resulting personnel-related expenses of $1.8 million, including a $0.7 million increase in stock-based compensation, offset by capitalized qualifying development costs incurred during the three months ended September 30, 2017 of $0.8 million.

Research and development expense increased $3.7 million, or 16%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase was primarily attributable to an increase in average headcount and resulting personnel-related expenses of $4.1 million, including a $1.2 million increase in stock-based compensation, offset by capitalized qualifying development costs incurred during the nine months ended September 30, 2017 of $1.0 million.

As of September 30, 2017, we had 233 employees dedicated to research and development as compared to 219 employees as of September 30, 2016.

General and Administrative

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | $ | % | 2017 | 2016 | $ | % |
| | (dollars in thousands) | | | | | | | |
| General and administrative | $9,763 | $7,346 | $2,417 | 33% | $27,807 | $22,550 | $5,257 | 23% |

General and administrative expense increased $2.4 million, or 33%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase was primarily due to a $1.5 million increase in personnel-related expenses, including a $0.7 million increase in stock-based compensation, and a $0.7 million increase in audit, legal and consulting fees.

General and administrative expense increased $5.3 million, or 23%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase was primarily due to a $3.7 million increase in personnel-related expenses, including a $1.5 million increase in stock-based compensation, and a $1.1 million increase in audit, legal and consulting fees.

As of September 30, 2017, we had 164 employees dedicated to general and administrative as compared to 135 employees as of September 30, 2016.

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Other Expense, net, and Income Taxes Expense

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | $ | % | 2017 | 2016 | $ | % |
| | (dollars in thousands) | | | | | | | |
| Interest income (expense), net | $172 | $(261) | $433 | (166)% | $(125) | $(865) | $740 | (86)% |
| Other income (expense), net | 45 | (90) | 135 | (150)% | (56) | (226) | 170 | (75)% |
| Provision for income taxes | $83 | $142 | $(59) | (42)% | $343 | $279 | $64 | 23 % |

Interest income (expense), net increased during the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 as a result of interest income earned on our higher cash balances, which are invested in money market funds.

Liquidity and Capital Resources

As of September 30, 2017 and December 31, 2016, we had cash and cash equivalents of $225.3 million and $85.9 million, respectively. Cash and cash equivalents consist of cash on deposit and money market funds.

In January 2015, we entered into a loan agreement with Silicon Valley Bank for a secured revolving credit facility that allows us to borrow up to $20 million for working capital and general business requirements. We have not drawn down any amounts under the loan agreement. The loan agreement is set to expire in January 2018.

In May 2017, we completed a follow-on public offering in which we issued and sold 5,060,000 shares of Class A common stock at a public offering price of $27.95 per share. We received net proceeds of $134.7 million after deducting underwriters' discounts and commissions of $6.7 million, but before deducting offering expenses of approximately $0.4 million.

We believe that our existing cash and cash equivalents balance will be sufficient to meet our working capital requirements for at least the next 12 months. However, our liquidity assumptions may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect. Our future capital requirements and the adequacy of available funds will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, and those factors set forth in Part II, Section 1A - "Risk Factors," of this Quarterly Report on Form 10-Q. We cannot assure you that we will be able to raise additional capital on acceptable terms or at all. In addition, if we fail to meet our operating plan during the next 12 months, our liquidity and ability to operate our business could be adversely affected.

The following table summarizes our cash and cash equivalents and our cash flows as of and for the periods presented:

| | As of September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Cash and cash equivalents | $225,312 | $86,288 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Cash provided by (used in) operating activities | 5,524 | (4,124) |
| Cash used in investing activities | 7,492 | 10,604 |
| Cash provided by financing activities | 141,217 | 7,604 |

Operating Activities

During the nine months ended September 30, 2017, operating activities provided $5.5 million in cash, primarily as a result of $16.7 million of non-cash expenses included in our net loss of $11.9 million, and $0.8 million provided by the net change in operating assets and liabilities. The non-cash expenses primarily consisted of $9.9 million of stock-based compensation expense and $6.7 million of depreciation and amortization expense. The net change in operating assets and liabilities was primarily a result of a $1.9 million increase in accounts payable, accrued expenses, and other liabilities and a $1.2 million increase in deferred revenue, which were partially offset by a $0.8 million increase in accounts receivable, and a $2.0 million increase in prepaid expenses and other current assets. The increase in accounts payable, accrued expenses, and other liabilities was due to the increase in headcount and the timing of payments to our vendors and employees.

During the nine months ended September 30, 2016, operating activities used $4.1 million, primarily as a result of our net loss of $19.0 million, partially offset by $13.1 million of non-cash charges and $1.8 million provided by the net change in operating assets and liabilities. The non-cash charges primarily consisted of $6.6 million of stock-based compensation expense and $5.7 million of depreciation and amortization expense. The net change in operating assets and liabilities was primarily a result of a $2.6 million increase in accounts payable, accrued expenses, and other liabilities and a $2.0 million increase in deferred revenue, which were partially offset by a $2.2 million increase in accounts receivable and a $0.6 million increase in prepaid expenses and other current assets. The increase in accounts payable, accrued expenses, and other liabilities was due to the increase in headcount and the timing of payments to our vendors and employees.

Investing Activities

During the nine months ended September 30, 2017, investing activities used $7.5 million as a result of $5.8 million in purchases of property and equipment and $1.7 million cash paid for a business acquisition.

During the nine months ended September 30, 2016, investing activities used $10.6 million as a result of $6.5 million in purchases of property and equipment and $4.1 million cash paid for a business acquisition.

Financing Activities

During the nine months ended September 30, 2017, net cash provided by financing activities was $141.2 million, consisting primarily of the issuance of Class A common stock in the amount of $134.3 million, exercise of equity awards of $5.6 million, and proceeds from our employee stock purchase plan of $3.2 million, partially offset by $1.6 million in tax payments related to employee shares withheld from RSUs vesting during the period.

During the nine months ended September 30, 2016, net cash provided by financing activities was $7.6 million, consisting primarily of the exercise of equity awards of $3.0 million and proceeds from our employee stock purchase plan of $4.9 million, which was partially offset by $0.3 million in repayments on financing and capital lease obligations.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under non-cancelable leases for our office space in San Luis Obispo, California and unconditional purchase commitments for software subscriptions and communication services. For additional information, see Note 7 – “Commitments and Contingencies” contained in the “Notes to Condensed Consolidated Financial Statements” in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Off Balance Sheet Arrangements

As of September 30, 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other purposes.

Segment Information

We have one primary business activity and operate in one reportable segment.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no material changes in our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2016, other than the adoption of Accounting Standards Update 2016-09 “Improvements to Employee Share-Based Payment Accounting” effective January 1, 2017 described in Note 1 - “Summary of

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Business and Significant Accounting Policies" and Note 9 - "Income Taxes" contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Recently Issued and Adopted Accounting Pronouncements

For a discussion of new accounting pronouncements, refer to Note 1 – "Summary of Business and Significant Accounting Policies" contained in the "Notes to Condensed Consolidated Financial Statements" in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and expenses denominated in currencies other than the U.S. Dollar, principally the British Pound Sterling, the Euro and the Australian Dollar, which are subject to fluctuations due to changes in foreign currency exchange rates. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statements of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in foreign currency hedging transactions. A hypothetical 10% change in foreign currency exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates.

Interest Rate Risk

Our cash and cash equivalents consist of cash on deposit and money market accounts. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash equivalents have a short maturity, our portfolio's fair value is relatively insensitive to interest rate changes. To date, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 100 basis points change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's, or 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 a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that 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, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that in the opinion of our management, if determined unfavorably to us, would have a material adverse effect on our business, financial condition, operating results or cash flows. Regardless of the outcome, litigation can, among other things, be time consuming and expensive to resolve, and divert management resources.

Item 1A. Risk Factors

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the following risks, together with all of the other information contained in this Quarterly Report on Form 10-Q, including our financial statements and related notes, before making a decision to invest in our Class A common stock. Any of the following risks could have a material adverse effect on our business, operating results, and financial condition and could cause the trading price of our Class A common stock to decline, which would cause you to lose all or part of your investment.

Risks Related to Our Business

We have a history of losses, and we may not achieve or maintain profitability in the future. In addition, our revenue growth rate may not sustain the levels experienced in recent years.

We have incurred a net loss in each year since our inception, including a net loss of $23.0 million, $36.1 million and $24.6 million in the years ended December 31, 2016, 2015 and 2014, respectively, and a net loss of $11.9 million and $19.0 million in the nine months ended September 30, 2017 and 2016, respectively. For the years ended December 31, 2016, 2015 and 2014, our revenue was $139.0 million, $101.4 million and $70.0 million, respectively, representing a 37% and 45% growth rate, respectively. For the nine months ended September 30, 2017 and 2016, our revenue was $132.9 million and $100.8 million, respectively, representing a 32% growth rate. Our historical revenue growth rates are not necessarily indicative of future growth, and we may not achieve similar revenue growth rates in future periods.

We have expended and expect to continue to expend financial and other resources on, among other things:

- continuing the development of our platform, including investments in our research and development team, the development or acquisition of new products, features and functionality, and improvements to the scalability, availability and security of our platform;
- strategic acquisitions;
- improving our technology infrastructure and hiring additional employees for our sales, operations and customer support teams;
- sales and marketing expenses, including personnel and lead generation expenses;
- expenses related to international expansion in an effort to increase our subscriber base; and
- general and administrative expenses, including legal, regulatory, accounting and other expenses related to being a public company.

If we expend more resources on growing our business than currently anticipated or if we encounter unforeseen operating expenses, difficulties, complications, and other unknown factors, we may not be able to achieve or sustain profitability and our operating results and business would be harmed.

If we fail to increase market acceptance of our platform, enhance and adapt this platform to changing market dynamics and subscriber preferences, or keep pace with technological developments, our business, results of operations, financial condition and growth prospects would be adversely affected.

We derive, and expect to continue to derive, a majority of our revenue and cash inflows from our integrated cloud-based business management software and payments platform for the wellness services industry. As such, market acceptance of this platform is critical to our success. Our ability to attract new subscribers and increase revenue from existing subscribers depends in part on our ability to enhance and improve our existing platform and to introduce new features, products and services, including features, products and services designed for a mobile user environment. Demand for our platform is affected by a number of

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factors, many of which are beyond our control, such as the timing of development and release of new products, features and functionality by our competitors, technological change, and growth or contraction in our addressable market.

To grow our business, we must develop features, products and services that reflect the changing nature of business management software and expand beyond our core scheduling and point-of-sale functionality to other areas of managing relationships with our subscribers, as well as their relationships with their consumers. For example, in 2013, we expanded our platform to include MINDBODY Connect (now the MINDBODY app), and in 2015 we introduced the MINDBODY Marketing Platform (now the MINDBODY Network) and began providing automated marketing functionality with our higher-priced subscriptions. The success of these and any other enhancements to our platform depends on several factors, including timely completion, adequate quality testing and sufficient subscriber or consumer demand. Any new feature, product or service that we develop may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the market acceptance necessary to generate sufficient revenue. If we are unable to successfully develop new features, products or services, meet the demands of our subscribers for features, products and services that meet their business needs and are easy to use and deploy, or enhance our existing platform to meet subscriber requirements, our ability to achieve widespread market acceptance of our platform will be undermined, and our business, results of operations, financial condition and growth prospects will be adversely affected.

In addition, because our platform is available over the Internet, we need to continuously modify and enhance our platform to keep pace with changes in Internet-related hardware, software, communications and database technologies and standards. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments and changes in standards, our platform may become less marketable, less competitive, or obsolete, and our operating results will be harmed. If new technologies emerge that are able to deliver competitive products and applications at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete. Our platform must also integrate with a variety of network, hardware, mobile, and software platforms and technologies, and we need to continuously modify and enhance our products and services to adapt to changes and innovation in these technologies. Any failure of our platform to operate effectively with future infrastructure platforms and technologies could reduce the demand for our platform. If we are unable to respond to these changes in a cost-effective manner, our platform may become less marketable, less competitive or obsolete, and our operating results may be adversely affected.

Our business depends substantially on our subscribers renewing their subscriptions to our platform. Any decline in the rate at which subscribers, particularly high value subscribers, renew their subscriptions would harm our future operating results.

The vast majority of our subscription revenue is derived from subscriptions to our platform that have monthly terms. For us to maintain or improve our operating results, it is important that our subscribers renew their subscriptions each month. Our retention rate may decline or fluctuate as a result of a number of factors, including our subscribers' satisfaction with our platform, our customer support, our prices, the prices of competing software systems, system uptime, network performance, data breaches, mergers and acquisitions affecting our subscriber base, the effects of global economic conditions and the strength of our subscribers' businesses. For example, in January 2017, we stopped actively selling subscriptions of our Solo software level to new subscribers and increased the monthly subscription pricing across all other software levels for new subscribers. We also increased monthly subscription pricing across all of our software levels for existing subscribers without long term contracts, which has been and will continue to be rolled out over the course of 2017. We believe that the foregoing contributed to the sequential decline in the total number of subscribers as of three months ended March 31, June 30, and September 30, 2017. While we believe that our refined subscriber growth strategy to target high value subscribers will contribute to our revenue growth over time, we cannot guarantee that our subscribers will continue to renew their subscriptions. If our subscribers, and in particular our high value subscribers, do not renew their subscriptions or renew but shift to lower priced software subscriptions, our revenue may decline and we may not realize improved operating results from our subscriber base.

If our network or computer systems are breached, unauthorized access to subscriber or consumer data is otherwise obtained, or denial-of-service attacks occur, our platform may be perceived as insecure, we may lose existing subscribers or fail to attract new subscribers, and we may incur significant liabilities.

Use of our platform involves the storage, transmission and processing of our subscribers' proprietary data, including personal or identifying information regarding their consumers or employees. Unauthorized access to or security breaches of our platform or denial-of-service attacks that we have experienced, could result in the loss of data, loss of intellectual property or trade secrets, loss of business, reputational damage, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws, regulations, or contractual obligations, and significant fees and other monetary payments for remediation.

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If any unauthorized access to our systems or data or any other security breach or denial-of-service attack occurs, or is believed to have occurred, our reputation and brand could be damaged, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches and remediate our systems, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, some or all of which may not be covered by insurance, and our ability to operate our business may be impaired. If subscribers believe that our platform does not provide adequate security for the storage of personally identifiable or other sensitive information or its transmission over the Internet, our business will be harmed. Subscribers' concerns about security, privacy, or data protection may deter them from using our platform for activities that involve personal or other sensitive information. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Our errors and omissions insurance policies covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all potential liability. Although we maintain cyber liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

Because the techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We may also experience security breaches that may remain undetected for extended periods of time.

Because data security is a critical competitive factor in our industry, we make statements in our privacy policies and terms of service, through our certifications to privacy standards, and in our marketing materials, describing the security of our platform, including descriptions of certain security measures we employ. Should any of these statements be untrue, become untrue, or be perceived to be untrue, even if through circumstances beyond our reasonable control, we may face claims, including claims of unfair or deceptive trade practices, brought by the U.S. Federal Trade Commission, state, local or foreign regulators or private litigants.

Because our platform can be used to collect and store personal information, domestic and international privacy and data security concerns could result in additional costs and liabilities to us or inhibit sales of our platform.

Personal privacy, information security, and data protection are significant issues in the United States, Europe and many other jurisdictions where we offer our platform. The regulatory framework for privacy, security, and data protection issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. The U.S. federal and various state and foreign governments have adopted or proposed limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information and other data relating to individuals, and the Federal Trade Commission and numerous state attorneys general are applying federal and state consumer protection laws to enforce regulations related to the online collection, use and dissemination of personally identifiable information and other data. Some of these requirements include obligations on companies to notify individuals of security breaches involving particular personal information, which could result from breaches experienced by us or our service providers. Even though we may have contractual protections with our service providers, notifications related to a security breach could impact our reputation, harm customer confidence, hurt our sales and expansion into new markets or cause us to lose existing customers.

Further, many foreign countries and governmental bodies, including the European Union and Canada, have laws and regulations concerning the collection and use of personally identifiable information obtained from their residents or by businesses operating within their jurisdiction. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of data that identifies or may be used to identify or locate an individual, such as names, email addresses and, in some jurisdictions, Internet Protocol, or IP, addresses. These laws and regulations often are more restrictive than those in the United States and are subject to significant changes. For example, with regard to data transfers of personal data from our European employees and customers to the United States, we have historically relied on our adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks, which established means for legitimizing the transfer of personal data by U.S. companies doing business in Europe from the European Economic Area to the United States. In October 2015, the European Court of Justice invalidated the U.S.-EU Safe Harbor framework. In July 2016, the European Union and the United States announced the adoption of a new framework for legitimizing trans-Atlantic data flows, the EU-U.S. Privacy Shield. In September 2016, we self-certified with the U.S. Department of Commerce under the EU-U.S. Privacy Shield as a replacement to the now invalid EU-U.S. Safe Harbor Framework. Notwithstanding this certification, uncertainty remains as to whether the EU-U.S. Privacy Shield and other legal mechanisms for the lawful transfer of data from the European Union to the United States will withstand legal challenges, whether from regulators or private parties. Additionally, beginning in September 2017 the EU-U.S. Privacy Shield is subject to annual review by the European Commission and the U.S. Department of Commerce, which could result in modifications to the Privacy Shield or its enforcement, or even its invalidation. As another example of new requirements that could increase scrutiny under Privacy Shield, the European Commission, in its most recent review, commented that “[c]ompliance checks could for example take the form of compliance review

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questionnaires sent to a representative sample of certified companies on a specific 'thematic' issue (e.g., onward transfers, data retention), or the [U.S. Department of Commerce] could systematically request to be provided with the annual compliance reports." If our privacy and data policies and practices, are, or are perceived to be, insufficient or if our customers have concerns regarding the transfer of data from the European Union to the United States, customer demand for our platform could decline and our business could be negatively impacted.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. For example, in April 2016, the EU Parliament adopted the General Data Protection Regulation, or GDPR, which, among other things, imposes more stringent data protection requirements and provides for greater penalties for noncompliance and is expected to take effect in May 2018. Future laws, regulations, standards and other obligations, and changes in the interpretation of existing laws, regulations, standards and other obligations could impair our or our subscribers' ability to collect, use or disclose information relating to consumers, which could decrease demand for our platform, increase our costs and impair our ability to maintain and grow our subscriber base and increase our revenue. New laws (including, among others, the GDPR), amendments to or re-interpretations of existing laws and regulations, industry standards, contractual obligations and other obligations may require us to incur additional costs and restrict our business operations. In view of new or modified federal, state or foreign laws and regulations, industry standards, contractual obligations and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to fundamentally change our business activities and practices or to expend significant resources to modify our software or platform and otherwise adapt to these changes. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personally identifiable information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our subscribers to lose trust in us, which could have an adverse effect on our reputation and business. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new products and features could be limited. Moreover, in March 2017, the U.K. government invoked Article 50 of the Lisbon Treaty to initiate the process to leave the European Union, which follows the results of the referendum in June 2016 in which the United Kingdom voted to leave the European Union. The impact of the foregoing on data and privacy regulations in the United Kingdom remains uncertain. Any of these developments could harm our business, financial condition and results of operations. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our subscribers may limit the use and adoption of, and reduce the overall demand for, our platform. Privacy, information security, and data protection concerns, whether valid or not valid, may inhibit market adoption of our platform, particularly in certain industries and foreign countries.

We are subject to a number of legal requirements, industry standards and contractual obligations regarding security, data protection, and privacy and any failure to comply with these requirements, obligations or standards could have an adverse effect on our reputation, business, financial condition and operating results.

As a service provider to our subscribers, we must comply with a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data. For example, our solutions must conform, in certain circumstances, to requirements set forth in the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and the regulations promulgated thereunder, which collectively govern the privacy and security of protected health information. Through the provision of online scheduling services to certain of our clients, we may collect, access, use, maintain and transmit protected health information in ways that may be subject to certain of these laws and regulations. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

HIPAA applies to covered entities (e.g., health plans, health care clearinghouses and most health care providers) and to "business associates" of covered entities, which include individuals and entities that provide services for or on behalf of covered entities pursuant to which the service providers may use or access protected health information, as well as subcontractors of business associates who may use or access such information. Because certain subscribers that are HIPAA-covered entities or HIPAA-business associates may receive and transmit protected health information through our platform, we may be considered to be a business associate or a subcontractor to business associates with respect to these subscribers. Therefore, under the current HIPAA regulations promulgated by the U.S. Department of Health and Human Services, if we experience a breach of patient information and/or are found to be in violation of HIPAA, the liability rules for business associates and business associates' subcontractors could result in civil and criminal penalties, including substantial monetary penalties and additional administrative burden if we become subject to a corrective action plan, as well as reputational harm to our business.

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The Standards for Privacy of Individually Identifiable Health Information, or Privacy Rule, and the Security Standards for the Protection of Electronic Protected Health Information, or Security Rule, which jointly govern the privacy and security of protected health information, could significantly affect our business. The Privacy Rule and the Security Rule require the development and implementation of policies, procedures, safeguards and contracts to assure compliance. We have implemented certain compliance measures, but we may be required to make additional modifications or to document and implement additional policies and procedures to comply with evolving HIPAA rules and our subscribers' business associate agreements with us. We may also be required to perform periodic audits and refinements as required by HIPAA and our subscribers' business associate agreements with us.

Additionally, because we process a significant portion of our payments through debit or credit cards and enable our subscribers to engage in payments through our service, we are contractually required to maintain Payment Card Industry Data Security Standard, or PCI DSS, compliance as part of our information security program. We also may find it necessary or desirable to join industry or other self-regulatory bodies or other privacy, security, or data protection-related organizations that require compliance with their rules pertaining to privacy, information security, and data protection. We also may be bound by additional, more stringent contractual obligations relating to our collection, use and disclosure of personal, financial and other data. If we cannot comply with or if we incur a violation of any of these regulations or requirements, we could incur significant liability through fines and penalties imposed by credit card associations or other organizations, breach of contracts with our payment processors, or our growth could be adversely impacted, either of which could have an adverse effect on our reputation, business, financial condition and operating results.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and operating results.

Our continued growth depends in part on the ability of our existing and potential subscribers to access our platform at any time and within an acceptable amount of time. Our platform is proprietary, and we rely on the expertise of members of our engineering, operations and software development teams for our platform's continued performance. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users accessing our platform simultaneously, denial-of-service attacks, or other security related incidents. For example, we have been the subject of denial-of-service attacks that have rendered our core software inaccessible for several hours. In addition, from time to time we experience limited periods of server downtime due to server failure or other technical difficulties. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our platform becomes more complex and our user traffic increases due to, among other things, a growing number of subscribers and consumers originating from and demanding service in a greater number of countries. If our platform is unavailable or if our users are unable to access our platform within a reasonable amount of time, or at all, our business would be adversely affected and our brand could be harmed. In the event of any of the factors described above, or certain other failures of our infrastructure, subscriber or consumer data may be permanently lost. Moreover, our agreements with subscribers typically provide for a limited warranty relating to service level commitments. Our subscribers may be eligible for credits if we are unable to meet these service level commitments. If we experience significant periods of service downtime in the future, we may be subject to claims by our subscribers against these warranties. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be adversely affected.

Real or perceived errors, failures, or bugs in our platform could adversely affect our operating results and growth prospects.

Because our platform is complex, undetected errors, failures, vulnerabilities or bugs may occur, especially when updates are deployed or if there are issues with our secure access management procedures. Our platform is often used in connection with computing environments with different operating systems, system management software, equipment and networking configurations, which may cause errors in or failures of our platform or other aspects of the computing environments. In addition, deployment of our platform into complicated, large-scale computing environments may expose undetected errors, failures, vulnerabilities or bugs in our platform. Despite testing by us, errors, failures, vulnerabilities or bugs may not be found in our platform until after it is deployed to our subscribers or their consumers. We have discovered, and expect to discover in the future, software errors, failures, vulnerabilities and bugs in our platform, and we anticipate that certain of these errors, failures, vulnerabilities and certain bugs can only be discovered and remediated after deployment to subscribers. Real or perceived errors, failures or bugs in our platform could result in negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position or claims by subscribers for losses sustained by them. In such an event, we may be required, or may choose

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for subscriber relations or other reasons, to expend additional resources in order to help correct the problem and or repair goodwill with our subscribers.

Our payments platform is a core element of our business, and any failure to grow and develop our payment processing activities, or to anticipate changes in consumer behavior, could materially and adversely affect our business and financial results.

Our payments platform is a core element of our business. For the years ended December 31, 2016, 2015 and 2014, our payments platform generated 39%, 37% and 37% of our total revenue, respectively. For the nine months ended September 30, 2017 and 2016, our payments platform generated 39% and 38% of our total revenue, respectively. Our future success depends in large part on the continued growth and development of our payments platform. If such activities are limited, restricted, curtailed or degraded in any way, or if we fail to continue to grow and develop such activities, our business may be materially and adversely affected.

The continued growth and development of our payments platform will depend on our ability to anticipate and adapt to changes in consumer behavior. For example, consumer behavior may change regarding the use of credit card transactions, including the relative increased use of cash, ACH, crypto-currencies, other emerging or alternative payment methods and credit card systems that we or our processing partners do not adequately support or that do not provide adequate commissions to Independent Sales Organizations such as us. Any failure to timely integrate emerging payment methods (e.g., Apple Pay or Bitcoin) into our software, anticipate consumer behavior changes, or contract with processing partners that support such emerging payment technologies could cause us to lose traction among our subscribers, resulting in a corresponding loss of revenue, in the event such methods become popular among their consumers.

Our payments platform is subject to U.S. and international rules and regulations, many of which are still developing. If we fail to comply with such rules and regulations or if new laws, rules or practices applicable to payment systems restrict our ability to collect fees from our payments platform, our financial results could be materially and adversely effected.

Payment processing is subject to extensive regulation in the United States and other countries where we operate, and presents a wide range of risks. We may encounter increased regulatory scrutiny and new regulatory compliance requirements brought about by evolving laws, rules and regulations. The payment processing activities on our platform are subject to price controls within the United States and other countries, and may be subject to an increase of price controls, including controls limiting the amount we are allowed to charge subscribers for processing credit card and debit card transactions. In addition, certain countries limit payments-related activities by foreign companies, including by restricting the transfer of funds out of such countries. Changes in the laws, rules or practices applicable to payment systems such as VISA, MasterCard or American Express, among others, including changes resulting in increased costs that we or our subscribers must pay, may force changes to our payments platform that could adversely affect our business.

If we incur an actual or perceived breach to our payments platform, we may incur significant liabilities and our brand and reputation may be damaged.

We may suffer an attack on our payments platform that results in a breach of consumer cardholder data. We maintain payment information for tens of millions of consumers on our payments platform, and we are a potential target for hackers and other parties attempting to steal credit card data via cyber-attacks or other means. As we increase our consumer base and our brand becomes more widely known and recognized, we may become more of a target for these malicious third parties. If we experience any actual or perceived data breach as a result of third-party actions, employee negligence or error, or malfeasance, whether or not resulting in the unauthorized acquisition of or access to cardholder data, we could incur significant liability, our business may suffer and our brand and reputation may be damaged. We could be required to pay extensive fines and costs related to any such data breach, including costs incurred to replace credit cards and cardholder information and provide security monitoring services, and we could lose future sales and subscribers, any of which could harm our business and operating results. Such fines and costs could become due in one or two business days following such breach and exceed the amount of cash available to us, thereby impacting our ability to operate our business. In addition, a data breach or failure to comply with rules or regulations of payment systems could also result in the termination of our status as a registered Independent Sales

Organization / Merchant Service Provider, thereby dramatically impairing our ability to continue doing business in the payments industry.

We are subject to risks related to our reliance on third-party processing partners to perform our payment processing services.

We depend on our third-party processing partners to perform payment processing services. Our processing partners may go out of business or otherwise be unable or unwilling to continue providing such services, which could significantly and materially reduce our payments revenue and disrupt our business. A number of our processing contracts require us to assume liability for any losses our processing partners may suffer as a result of losses caused by our subscribers, including losses caused by chargebacks and consumer or subscriber fraud. We have in the past and may in the future incur losses caused by chargebacks and fraud. In the event of a significant loss by our processing partners, we may be required to remit a large amount of cash in one or two business days following such event and, if we do not have sufficient cash on hand, may be deemed in breach of such contracts. In addition, our subscribers may be subject to quality issues related to products or services provided by our third-party processing partners or we may become involved in contractual disputes with our processing partners, both of which could impact our reputation and adversely impact our revenue. Certain contracts may expire or be terminated, and we may not be able to replicate the associated revenue through a new processing partner relationship for a considerable period of time.

We expect to initiate new third-party payment relationships or migrate to other third-party payment partners in the future. The initiation of these relationships and the transition from one relationship to another would require significant time and resources. New third-party payment processing relationships may not be as effective, efficient or well received by subscribers and their consumers, nor is there any assurance that we will be able to reach an agreement with such processing partners. Our contracts with such processing partners may be less lucrative. For instance, we may be required to pay more for payment processing or receive a less favorable revenue arrangement from our payment processing partners. We may also experience the termination of revenue streams due to such migrations.

We may undertake to directly perform certain payment processing services and expand the scope of payment processing services we provide, which may require a significant investment of time and resources, and expand our exposure to potential liabilities.

In the future, we may undertake to directly perform certain payment processing services that we currently depend upon our processing partners to perform, expand the scope of payment processing services we provide, offer additional payment processing services or otherwise undertake additional responsibilities and liabilities related to such payment processing services. For example, in the future, we may undertake to act as a registered payment facilitator or payment service provider of the payment systems, providing merchants with a suite of services, including payment processing and funding and accepting payments as the merchant of record on behalf of other merchants. Any of these endeavors would require a significant investment of time and effective management of resources before presenting any potential upside for us, and may dramatically expand the scope of our potential contractual liability or exposure in the event of a lawsuit. Further, we may fail to effectively execute in performing such an expansion of services.

If pricing for our software subscriptions is not acceptable to our customers, our operating results will be harmed.

We have from time to time, increased the price of our software subscriptions, and may do so again in the future. For example, multiple times over the past three years, including most recently in January 2017, we increased pricing across all of our subscription levels, which we believe may have reduced, and in the future may reduce, the number of new subscribers adopting our software and may reduce the retention of existing subscribers. We cannot guarantee that new or existing subscribers will adopt subscriptions at our current prices. In the future, we may be required to further refine our tiered pricing model and our software levels or customers may migrate to lower level offerings or leave our platform entirely, which could adversely affect our subscriber numbers, revenue, gross margin, profitability, financial position and cash flow.

The market for business management software is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for business management software for the wellness services industry is fragmented and rapidly evolving, with relatively low barriers to entry. We face competition from in-house developed software systems, other software companies, and traditional paper-based methods. Our competitors vary in size and in the breadth and scope of the products and services they offer. In addition, there are a number of companies that are not currently direct competitors but that could in the future shift their focus to the wellness services industry and offer competing products and services. Some of these companies, such as Intuit and Square, have or may in the future acquire greater financial and other resources than we do and could bundle competing products and services with their other offerings or offer such products and services at lower prices as part of a larger sale. There is also a risk that certain of our current business partners could terminate their relationships with us and use the insights they have gained from partnering with us to introduce their own competing products. Many of our current and potential competitors have greater name recognition, established marketing relationships, access to larger customer bases and pre-existing relationships with customers, consultants, system integrators and resellers. Additionally, some potential subscribers in the wellness services industry, particularly large organizations, have elected, and may in the future elect, to develop their own business management software. Certain of our competitors have partnered with, or have acquired, and may in the future partner with or acquire, or be acquired by, other competitors to offer services, leveraging their collective competitive positions, which makes, or would make, it more difficult to compete with them.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our platform and new market entrants, we expect competition to intensify in the future. Pricing pressures and increased competition generally could result in reduced sales, reduced margins, increased churn, reduced subscriber retention, further losses or the failure of our platform to achieve or maintain more widespread market acceptance, any of which could harm our business. For all of these reasons, we may fail to compete successfully against our current and future competitors, and if such failure occurs, our business will be harmed.

Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our subscriber base and achieve broader market acceptance of our platform.

Increasing our subscriber base and achieving broader market acceptance of our platform will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities, including internationally. We are substantially dependent on our marketing organization to generate a sufficient pipeline of qualified sales leads and on our direct sales force to close new subscribers. From September 30, 2016 to September 30, 2017, our sales and marketing organizations increased from 500 to 508 employees. We plan to continue to expand our direct sales force, both domestically and internationally, and to increase the number of our sales professionals who have experience in selling to larger organizations. We believe that there is significant competition for experienced sales professionals with the sales skills and technical knowledge that we require, and this competition is particularly acute for us given that our headquarters is located in San Luis Obispo, a small city with fewer resources than the San Francisco Bay Area, where many companies competing for similar talent are based. Our ability to achieve significant revenue growth in the future will depend, in part, on our success in recruiting, training and retaining a sufficient number of experienced sales professionals. New hires require significant training and time before they achieve full productivity, particularly in new sales segments and territories. Our recent and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. We cannot predict whether, or to what extent, our sales will increase as we expand our sales force or how long it will take for sales personnel to become productive. If our marketing organization does not generate a sufficient pipeline of qualified sales leads and our direct sales force is unable to close subscribers, our business and future growth prospects could be harmed.

Even if the market for our platform grows as expected, our ability to achieve long-term revenue growth will primarily depend on our ability to sell subscriptions to a large number of new small and medium-sized businesses on a consistent basis and in a cost-effective manner, with each sale constituting only a small portion of our overall revenue.

The market for our platform is highly fragmented. As a result, even if this market grows as expected, our ability to achieve long-term revenue growth will largely depend on our sales team's ability to sell subscriptions to a large number of new small and medium-sized businesses on a consistent basis, with each sale constituting only a small portion of our overall revenue. To achieve this type of subscriber growth in a cost-effective manner, it is crucial that our platform is easy to use and implement without the need for excessive post-sale customer support. If we are unable to sell a large volume of subscriptions on a consistent basis, or if we are forced to incur excessive costs to provide post-sale customer support, our business, results of operations, financial condition and growth prospects will be adversely affected.

Any failure to offer high-quality customer support may adversely affect our relationships with our subscribers and our financial results.

In deploying and using our platform, our subscribers depend on our 24/7 customer support team to resolve complex technical and operational issues, including ensuring that our platform is implemented in a manner that integrates with a variety of third-party platforms. We may be unable to respond quickly enough to accommodate short-term increases in subscriber demand for customer support. We also may be unable to modify the nature, scope and delivery of our customer support to compete with changes in customer support services provided by our competitors. Increased subscriber demand for customer support, without corresponding revenue, could increase costs and adversely affect our operating results. Our sales are highly dependent on our business reputation and on positive recommendations from our existing subscribers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could adversely affect our reputation and brand, our ability to sell our platform to existing and prospective subscribers, our business, operating results and financial position.

Our quarterly results may fluctuate for various reasons, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow our stock, the price of

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our Class A common stock could decline substantially. Some of the important factors that may cause our revenue, operating results and cash flows to fluctuate from quarter to quarter include:

- our ability to attract new subscribers, retain and increase sales to existing subscribers and satisfy our subscribers' requirements;
- the mix of our subscriber base, including the concentration of high value subscribers;
- the volume of transactions processed on our payments platform;
- the variability of revenues derived from our partners;
- the number of employees added;
- the rate of expansion and productivity of our sales force;
- the entrance of new competitors in our market, whether by established companies or new companies;
- changes in our or our competitors' pricing policies;
- the amount and timing of operating costs and capital expenditures related to the expansion of our business, including our sales force, and expenses related to the development or acquisition of technologies or businesses;
- new pricing models, products, features or functionalities introduced by our competitors;
- significant security breaches, technical difficulties or interruptions to our platform and any related impact on our reputation;
- the timing of payments by subscribers and other payment processing partners and payment defaults by subscribers or other payment processing partners;
- litigation, including class action litigation, involving our company, our services or our industry;
- general economic conditions or declines in consumer interest in the wellness industries that we serve, either of which may adversely affect either our subscribers' ability or willingness to purchase additional subscriptions, delay a prospective subscriber's purchasing decision, reduce the value of new subscription contracts or affect subscriber retention;
- changes in the relative and absolute levels of customer support we provide;
- changes in foreign currency exchange rates;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- the impact of new accounting pronouncements; and
- the timing of the grant or vesting of equity awards to employees.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our revenue, operating results and cash flows to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenue, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

If we fail to manage the growth of our operations effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have experienced rapid growth in our operations and headcount, which has placed, and future growth may continue to place, significant demands on our management, administrative, operational and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to scale our technology infrastructure and continue to improve our operational, financial and management controls, and our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in onboarding new subscribers, declines in quality or subscriber satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties. Any of these difficulties could adversely impact our business performance and operating results.

If we fail to effectively manage our growth in a manner that preserves the key aspects of our corporate culture, our business and operating results could be harmed.

We believe that our corporate culture fosters innovation, creativity and teamwork. However, as our organization grows, we may find it increasingly difficult to maintain the beneficial aspects of such culture, and the failure to do so could adversely impact our ability to retain and attract the kind of employees necessary for our future success. If we are unable to manage our anticipated growth and change in a manner that preserves the key aspects of our culture, the quality of our products and services may suffer, which could adversely affect our brand and reputation and harm our ability to retain and attract subscribers.

We depend on our executive officers and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our executive officers and other key employees, including our Chairman and Chief Executive Officer, Richard Stollmeyer. We rely on our leadership team in the areas of research and development, operations, security, marketing, sales, support, general and administrative functions, and on individual contributors in our research and development and operations. We have experienced, and may in the future experience, changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period, and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers, especially our Chief Executive Officer, or other key employees, could have an adverse effect on our business.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel in the locations where we maintain offices is intense, especially in the San Luis Obispo area, where our headquarters is located, due in part to the relatively close proximity to the San Francisco Bay Area. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. In some cases, we have recruited employees from the San Francisco Bay Area and other regions with a greater supply of managerial, sales and engineering talent, and in such cases, we have sometimes found it necessary to offer compensation packages that were larger than would have been necessary if no relocation had been required. Many of the companies with which we compete for experienced personnel have greater resources than we have and are located in areas in which sales and engineering talent is more readily available. Moreover, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, our ability to recruit and retain highly skilled employees may be adversely impacted. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

If we are not able to maintain and enhance our brand, then our business, operating results, and financial condition may be adversely affected.

We believe that maintaining and enhancing our reputation as a differentiated and category-defining business management software company serving the wellness services industry is critical to our relationship with our existing subscribers and to our ability to attract new subscribers. The successful promotion of our brand attributes will depend on a number of factors, including our marketing efforts, our ability to continue to develop high-quality software, and our ability to successfully differentiate our platform from competitive products and services.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive and as we seek to expand our platform. To the extent that these activities yield increased revenue, this revenue may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors, and we could lose subscribers or fail to attract potential subscribers, all of which would adversely affect our business, results of operations and financial condition.

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

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our subscribers. The revenue growth and potential profitability of our business depend on demand for business management software generally and for business management software serving the wellness services industry in particular. Historically, during economic downturns, there have been reductions in spending on information technology as well as pressure for extended billing terms and other financial concessions. The adverse impact of economic downturns may be particularly acute among small and medium-sized businesses, which comprise the vast majority of our subscriber base. If economic conditions deteriorate, our current and prospective subscribers may elect to decrease their information technology budgets, which would limit our ability to grow our business and adversely affect our operating results.

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The market for, and adoption of, our integrated cloud-based business management software and payments platform may not grow as expected.

It is difficult to predict adoption rates, demand for our platform, the growth of our addressable market, the entry of competitive products or services or the success of existing competitive products or services. Any expansion in this market depends on a number of factors, including the cost, performance and perceived value associated with our platform. If growth in the market and the adoption rates for our platform do not grow as expected, and as a result we are unable to increase the sales of subscriptions to our platforms, then our revenues could decline and our operating results would be harmed.

Our financial results may fluctuate due to increasing variability in our sales cycles due to, among other things, an expansion of the focus of our sales efforts to include larger organizations.

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. These assumptions are based upon historical trends for sales cycles and conversion rates associated with our existing subscribers, many of whom to date have been small to medium-sized organizations. As we expand our sales efforts to include larger organizations, we have incurred and expect to continue to incur higher costs and longer and more unpredictable sales cycles. With larger organizations, the decision to subscribe to our platform may require the approval of more technical personnel and management levels within a potential subscriber's organization than we have historically encountered, and if so, these types of sales would require us to invest more time educating these potential subscribers. In addition, larger organizations may demand more features and integration and customer support services. We have limited experience in developing and managing sales strategies for larger organizations and in successfully onboarding larger organizations as new subscribers. As a result of these factors, these sales opportunities may not prove to be successful or may require us to devote greater research and development, sales, customer support and professional services resources to individual subscribers, resulting in increased costs and reduced profitability, and will likely lengthen our typical sales cycle, which could strain our resources. Moreover, these larger transactions may require us to delay recognizing the associated revenue we derive from these subscribers until any technical or implementation requirements have been met, and larger subscribers may demand discounts to the prices they pay for our platform.

Other factors that may influence the length and variability of our sales cycle include:

- our pricing terms;
- the need to educate prospective subscribers about the uses and benefits of our platform;
- the discretionary nature of purchasing and budget cycles and decisions;
- the competitive nature of evaluation and purchasing processes;
- evolving functionality demands;
- announcements or planned introductions of new products, features or functionality by us or our competitors; and
- lengthy purchasing approval processes, particularly among larger organizations.

If we are unsuccessful expanding sales to larger organizations, our business and results of operations could be adversely affected. In addition, if we are unable to close one or more expected significant transactions with subscribers in a particular period, or if one or more expected transactions are delayed until a subsequent period, our operating results for that period, and for any future periods in which revenue from such transactions would otherwise have been recognized, may be adversely affected.

Our future performance depends in part on support from our partner ecosystem.

We depend on our partner ecosystem to create apps that will integrate with our platform. This presents certain risks to our business, including:

- these apps may not meet the same quality standards that we apply to our own development efforts (including, among other things, data and privacy protections), and to the extent they contain bugs or defects, they may create disruptions in our subscribers' use of our platform or adversely affect our brand;
- these apps are subject to approval and/or removal from third party distribution platforms, including Apple's App Store and Google Play, among others;
- we do not currently provide substantive support for software apps developed by our partner ecosystem, and users may be left without adequate support and potentially cease using our platform if our partners do not provide adequate

support for these apps;

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- our partners may not possess the appropriate intellectual property rights to develop and share their apps;
- our relationship with our partners may change, which could adversely affect our revenue and our results of operations;
- our revenues from technology and API partners have grown rapidly in recent periods and, if our relationship with partners who contribute or have contributed more significantly to this growth or demand for products or services of these partners changes, this could adversely affect our revenue and results of operations;
- some of our partners may use the insight they gain from integrating with our software and from information publicly available to develop competing products or product features; and
- our partners may establish relationships with, or functionality to offer to, our subscribers that diminish or eliminate the need or desire for our API platform.

Since many of these risks are not within our control, any new standards or requirements by these third party developers or platforms could adversely affect our business, thereby reducing our revenue or increase our operating costs and adversely affecting our growth prospects.

The number of actual consumers using our platform may be lower than the number we have estimated.

We estimate that approximately 40 million active consumers used our platform during the two years ended September 30, 2017. While we do not directly monetize consumers of our subscribers' services, we believe that growth in the number of active consumers on our platform also contributes to our subscriber growth. In calculating this number, we have attempted to avoid duplicative counting of consumers by identifying consumers who may have used our platform through different subscribers. However, in certain cases, a single consumer may have transacted with multiple subscribers under slightly different names, in which case there is a chance that we have counted the same consumer more than once. Given the challenges inherent in identifying whether a single consumer has engaged in transactions on our platform under different names, we do not have a reliable way of identifying the precise number of consumers using our platform. If the number of actual consumers is materially lower than our expectations, our business may not grow as fast as we expect, which could harm our operating and financial results and cause our stock price to decline. Additionally, we have recently focused our sales and marketing efforts on high value subscribers, including analyzing these subscribers and their spending patterns to identify trends and opportunities. We are continuing to invest in our systems and controls to improve the precision and reliability of this high value subscriber data.

Our international sales and operations subject us to additional risks that can adversely affect our business, operating results and financial condition.

In the nine months ended September 30, 2017 and 2016, we derived 19% and 17%, respectively, of our revenue from subscribers located outside of the United States. We are continuing to expand our international operations as part of our growth strategy. We currently have sales personnel and sales and customer support operations in the United States, the United Kingdom and Australia. Our sales organization outside the United States is substantially smaller than our sales organization in the United States. We believe our ability to convince new subscribers to subscribe to our platform or to convince existing subscribers to renew or expand their use of our platform is directly correlated to the level of engagement we obtain with the subscriber. To the extent we are unable to effectively engage with non-U.S. subscribers due to our limited sales force capacity, we may be unable to effectively grow in international markets.

Our international operations subject us to a variety of additional risks and challenges, including:

- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;
- compliance with foreign privacy, information security, and data protection laws and regulations and the risks and costs of non-compliance;
- longer payment cycles and difficulties in enforcing contracts, collecting accounts receivable or satisfying revenue recognition criteria, especially in emerging markets;
- increased financial accounting and reporting burdens and complexities;
- uncertainty regarding the expected departure of the United Kingdom from the European Union;
- requirements or preferences for domestic products;

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- differing technical standards, existing or future regulatory and certification requirements and required features and functionality;
- economic conditions in each country or region and general economic uncertainty around the world;
- compliance with laws and regulations for foreign operations, including anti-bribery laws (such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. Travel Act, and the U.K. Bribery Act 2010), import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our platform in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact our financial results and result in restatements of our consolidated financial statements;
- fluctuations in currency exchange rates and related effect on our operating results;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- communication and integration problems related to entering new markets with different languages, cultures and political systems;
- differing labor standards, including restrictions related to, and the increased cost of, terminating employees in some countries;
- the need for localized software and licensing programs;
- the need for localized language support;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad; and
- compliance with the laws of numerous foreign taxing jurisdictions, including withholding obligations, and overlapping of different tax regimes.

Any of these risks could adversely affect our international operations, reduce our international revenue or increase our operating costs, adversely affecting our business, operating results, financial condition and growth prospects.

Compliance with laws and regulations applicable to our international operations substantially increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with changes in government requirements as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. In many foreign countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. or other regulations applicable to us. Although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, partners and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, partners, or agents could result in delays in revenue recognition, financial reporting misstatements, enforcement actions, disgorgement of profits, fines, civil and criminal penalties, damages, injunctions, other collateral consequences, or the prohibition of the importation or exportation of our platform and services and could adversely affect our business and results of operations.

We are subject to anti-corruption and anti-money laundering laws with respect to our operations and non-compliance with such laws can subject us to criminal and/or civil liability and harm our business.

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act 2010 and Proceeds of Crime Act 2002, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. We use third-party representatives to sell our products and services abroad. In addition, as we increase our international sales and business, we may engage with additional business partners and third-party intermediaries to sell our products and services abroad and to obtain necessary permits, licenses, and other regulatory approvals. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

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Noncompliance with anti-corruption and anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations and financial condition could be materially harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees. Enforcement actions and sanctions could further harm our business, results of operations and financial condition.

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

We believe there are significant seasonal factors that may cause us to record higher revenue in some quarters compared with others. We believe this variability is largely due to our focus on the wellness services industry, as many of our subscribers experience an increase in demand for their services in the first quarter of each year due to their consumers becoming more motivated to pursue health and fitness goals in the new year. Our rapid growth rate over the last couple years may have made seasonal fluctuations more difficult to detect. If our rate of growth slows over time, seasonal or cyclical variations in our operations may become more pronounced, and our business, results of operations and financial position may be adversely affected.

Our business and growth depend in part on the success of our strategic relationships with third parties, including API platform partners, technology partners, and payments partners.

We depend on, and anticipate that we will continue to depend on, various third-party relationships in order to sustain and grow our business. We are highly dependent upon partners for certain critical features and functionality of our platform, including data centers and third-party payment processors supporting our payments platform. Failure of these or any other technology provider to maintain, support or secure its technology platforms in general, and our integrations in particular, or errors or defects in its technology, could materially and adversely impact our relationship with our subscribers, damage our reputation and brand, and harm our business and operating results. Any loss of the right to use any of this hardware or software could result in delays or difficulties in our ability to provide our platform until equivalent technology is either developed by us or, if available, identified, obtained and integrated.

Identifying, negotiating and documenting relationships with strategic third parties such as API platform partners, payments partners and technology partners requires significant time and resources. In addition, integrating third-party technology is complex, costly and time-consuming. Our agreements with partners are typically limited in duration, non-exclusive and do not prohibit them from working with our competitors or from offering competing services. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our platform. In addition, our partners could develop competing products or services.

Our third-party partners may also suffer disruptions or weakness in their businesses unrelated to the relationships with us that could cause declines in their business performance. Such occurrences could be harmful to our financial results and cause our stock price to decline.

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

We depend and rely upon SaaS technologies from third parties and on technology systems and electronic communication networks that are supplied and managed by third parties to operate our business, and interruptions or performance problems with these technologies may adversely affect our business and operating results.

We rely heavily on hosted SaaS applications from third parties in order to operate critical functions of our business, including sales automation and pipeline management, billing and order management, customer support, access to our API, IT support, enterprise resource planning, payroll and financial accounting services. If these services become unavailable due to extended outages or interruptions, security vulnerabilities or cyber-attacks, including prolonged denial-of-service attacks, or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted and our processes for managing sales of our platform and supporting and communicating with our subscribers could be impaired until equivalent services, if available, are identified, obtained and implemented, all of which could adversely affect our business.

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Our ability to provide services and solutions to our subscribers also depends on our ability to communicate with our subscribers through the public Internet and electronic networks that are owned and operated by third parties. In addition, in order to provide services on-demand and promptly, our computer equipment and network servers must be functional 24 hours per day, which requires access to telecommunications facilities managed by third parties and the availability of electricity, which we do not control. A severe disruption of one or more of these networks, including as a result of utility or third-party system interruptions, could impair our ability to process information, which could impede our ability to provide services to our subscribers, harm our reputation, result in a loss of subscribers and adversely affect our business and operating results.

We have in the past completed acquisitions, and we may in the future acquire or invest in companies. Such acquisitions and investments divert our management's attention and may in some cases result in additional dilution to our stockholders. In addition, we may be unable to integrate the acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.

We have in the past acquired companies, including our acquisition of HealCode in 2016 and Lymber in 2017, and we may in the future evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

Any acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their software is not easily adapted to work with our platform or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. The pursuit of potential acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business, whether or not they are consummated. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of these transactions, we may:

- issue additional equity securities that would dilute our existing stockholders;
- use cash that we may need in the future to operate our business;
- incur large charges or substantial liabilities associated with the acquisition;
- incur acquisition-related costs, which would be recognized as current period expenses;
- encounter difficulties maintaining relationships with customers and partners of the acquired business;
- encounter difficulties incorporating acquired technologies and rights into our platform, providing access and rights to our internal systems, and of maintaining quality and security standards consistent with our reputation and brand;
- incur debt on terms unfavorable to us or that we are unable to repay;
- encounter difficulties retaining key employees of the acquired company, integrating diverse software codes or business cultures or coordinating organizations that are geographically diverse and that have different business cultures; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

The occurrence of any of these risks could have a material adverse effect on our business operations and financial results.

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We may be sued for various claims including, among others, commercial claims, employment claims, and alleged infringement of third party proprietary rights.

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business, which may include claims, suits, class actions, government investigations and other proceedings involving alleged infringement of third party patents and other intellectual property rights, or commercial, corporate and securities, labor and employment, wage and hour and other matters. There is considerable patent and other intellectual property development activity in our industry. Our future success depends in part on not infringing upon the intellectual property rights of others. From time to time, we may receive claims from third parties, including our competitors that our platform and underlying technology infringe or violate a third party's intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our platform, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our subscribers or business partners in connection with any such litigation and to obtain licenses, modify our platform or refund subscription fees, which could further exhaust our resources. In addition, we may incur substantial costs to resolve claims or litigation, whether or not successfully asserted against us, which could include payment of significant settlement, royalty or license fees, modification of our platform or refunds to subscribers of subscription fees. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business operations.

Our use of "open source" software could adversely affect our ability to sell our platform and subject us to possible litigation.

We use open source software in our platform and expect to continue to use open source software in the future. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our platform, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer our platform or incur additional costs. Although we have implemented policies to regulate the use and incorporation of open source software into our platform, we cannot be certain that we have not incorporated open source software in our platform in a manner that is inconsistent with such policies.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part upon our intellectual property. We currently have twelve pending patent applications, but there is no guarantee that such applications will result in issued patents. We primarily rely on copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, subscribers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

To protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

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We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We have funded our operations since inception primarily through equity financings, loan facilities, financing agreements for software and license maintenance and subscription payments by our subscribers for use of our platform. For instance, in May 2017, we completed a follow-on public offering in which we issued and sold 5,060,000 shares of our Class A common stock at a public offering price of $27.95 per share. In the future, we intend to continue to make investments to support our business growth, and we may require additional capital to respond to business opportunities, challenges, acquisitions, and a decline in the level of subscriptions for our platform or unforeseen circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our Class A common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Our loan agreement contains operating and financial covenants that restrict our business and financing activities.

Borrowings under our loan agreement with Silicon Valley Bank are secured by substantially all of our assets, including our intellectual property. In addition, borrowings under our loan agreement are based on a percentage of our monthly recurring revenue for the prior months, up to $20 million. If our revenue declines, our ability to draw under the loan agreement could be adversely affected or if we were to draw under the loan agreement, a decline in our revenue could force us to repay all or a portion of the outstanding loan earlier than we may have originally anticipated. Our loan agreement also restricts our ability to, among other things:

- sell or otherwise dispose of our assets;
- make material changes in our business;
- enter into a transaction in which stockholders who were not stockholders immediately prior to such transaction own more than 40% of our voting stock after giving effect to such transaction;
- consolidate, merge with, or acquire other entities;
- incur additional indebtedness;
- create liens on our assets;
- pay dividends or make other distributions on our capital stock;
- make investments;
- enter into transactions with affiliates; and
- pay off or redeem subordinated indebtedness.

These restrictions are subject to certain exceptions. In addition, our loan agreement requires us to maintain a certain percentage of our projected revenue. The operating and financial restrictions and covenants in the loan agreement, as well as any future financing agreements that we may enter into, could restrict our ability to finance our operations and to engage in, expand or otherwise pursue business activities and strategies that we or our stockholders may consider beneficial. Our ability to comply with these covenants may be affected by events beyond our control, and future breaches of any of these covenants could result in a default under the loan agreement.

The loan agreement also contains customary events of default, subject to cure periods for certain defaults, including, among others, payment defaults, covenant defaults, the occurrence of a material adverse change in our business, defaults relating to certain legal processes affecting our assets or business, insolvency and bankruptcy defaults, cross-defaults to other material indebtedness, material judgment defaults, and material misrepresentations. Future defaults, if not waived, could cause all of the outstanding indebtedness under our loan agreement to become immediately due and payable and would permit Silicon Valley Bank to terminate all commitments to extend further credit and exercise remedies against the collateral in which we granted Silicon Valley Bank a security interest.

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If we do not have or are unable to generate sufficient cash available to repay our debt obligations when they become due and payable, either upon maturity or in the event of a default, we may not be able to obtain additional debt or equity financing on favorable terms, if at all. This could materially and adversely affect our liquidity and financial condition and our ability to operate and continue our business as a going concern.

We face exposure to foreign currency exchange rate fluctuations.

We conduct transactions in currencies other than the U.S. dollar. While we have primarily transacted with subscribers and vendors in U.S. dollars, we have transacted in foreign currencies for subscriptions to our platform and expect to significantly expand the number of transactions with subscribers for our platform that are denominated in foreign currencies in the future. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates, including, any fluctuations resulting from uncertainties relating to the expected departure of the United Kingdom from the European Union, cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be adversely affected.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

We may be subject to additional tax liabilities in connection with our operations or due to future legislation, each of which could materially impact our financial position and results of operation.

We are subject to federal and state income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. We do not collect sales and use, value added and similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable. Certain jurisdictions in which we do not collect sales, use, value added or other taxes on our sales may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future.

Significant judgment is required in determining our worldwide provision for income taxes. We generally conduct our international operations through wholly owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. These determinations are highly complex and require detailed analysis of the available information and applicable statutes and regulatory materials. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain.

Although we believe our tax practices and provisions are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, there could be a material effect on our tax provision, net income or cash flows in the period or periods for which that determination is made, which could materially impact our financial results. Further, any changes in the taxation of our activities, including certain proposed changes in U.S. tax laws, may increase our worldwide effective tax rate and adversely affect our financial position and results of operations. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2016, we had federal and state net operating loss carryforwards, or NOLs, of $103.0 million and $88.9 million, respectively, due to prior period losses, which, subject to the following discussion, are generally available to be carried forward to offset our future taxable income, if any, until such NOLs are used or expire. Our federal NOLs begin to expire in the year ending December 31, 2025, and our state NOLs started to expire in 2016 for the earliest net operating loss layers. In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Similar rules may apply under state tax laws. During the year ended December 31, 2015, we completed an analysis under Section 382 of the Code

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through December 31, 2014, and determined that we experienced multiple ownership changes during this period which will limit future utilization of NOL carryforwards. U.S. federal NOLs of approximately $430,000 are expected to expire due to limitations under Section 382 and, as such, have not been reflected in the NOL carryforward above. Future changes in our stock ownership, some of which are outside of our control, could result in additional ownership changes under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our platform, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our platform in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based platforms and services such as ours. In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by “viruses,” “worms” and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our platform could decline.

Catastrophic events may disrupt our business.

Our corporate headquarters are located in San Luis Obispo, California, and we utilize data centers that are located in North America. Key features and functionality of our platform are enabled by third parties that are headquartered in California and operate or utilize data centers in the United States. Additionally, we rely on our network and third-party infrastructure and enterprise applications, internal technology systems, and our website for our development, marketing, operational support, hosted services and sales activities. The west coast of the United States contains active earthquake zones. In addition, the Diablo Canyon nuclear power plant is located a short distance from San Luis Obispo. In the event of a major earthquake, hurricane or other natural disaster, or a catastrophic event such as a nuclear disaster, fire, power loss, telecommunications failure, cyber-attack, war or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our app development, lengthy interruptions in our platform, breaches of data security or data integrity and loss of critical data, all of which could have an adverse effect on our future operating results.

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

As a U.S. company, we are subject to U.S. export control and economic sanctions laws and regulations, and we are required to export our technology, software, products and services in compliance with those laws and regulations, including the U.S. Export Administration Regulations and economic embargo and trade sanction programs administered by the Treasury Department’s Office of Foreign Assets Control. U.S. economic sanctions and export control laws and regulations prohibit the shipment of certain products and services to countries, governments and persons targeted by U.S. sanctions. While we are currently taking precautions to prevent doing any business, directly or indirectly, with countries, governments and persons targeted by U.S. sanctions and to ensure that our business management software is not exported or used by countries, governments and persons targeted by U.S. sanctions, such measures may be circumvented.

Furthermore, if we export our technology, hardware or software, the exports may require authorizations, including a license, a license exception or other appropriate government authorization. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Failure to comply with export control and sanctions regulations for a particular sale may expose us to government investigations and penalties, which could have an adverse effect on our business, operating results and financial condition.

If we are found to be in violation of U.S. sanctions or export control laws, it could result in fines or penalties for us and for individuals, including civil penalties of up to $250,000 or twice the value of the transaction, whichever is greater, per violation,

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and in the event of conviction for a criminal violation for willful and knowing violations, fines of up to $1 million and possible incarceration for those responsible could be imposed against employees and managers. In addition, we may lose our export or import privileges and suffer reputational harm.

In addition, various countries regulate the import of certain encryption technology, including imposing import permitting and licensing requirements, and have enacted laws that could limit our ability to offer our platform or distribute our platform or could limit our subscribers' ability to implement our platform in those countries. Changes in our platform or future changes in export and import regulations may create delays in the introduction of our platform in international markets or prevent our subscribers with international operations from deploying our platform globally. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our platform by, or in our decreased ability to export or sell our platform to, existing or potential subscribers with international operations. Any decreased use of our platform or limitation on our ability to export or sell our platform would likely adversely affect our business operations and financial results.

Risks Related to Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of allowing those stockholders who held our capital stock prior to the completion of our initial public offering, including our executive officers, employees and directors and their affiliates, to limit your ability to influence the outcome of important transactions, including a change in control.

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. Stockholders who held shares of our Class B common stock as of September 30, 2017, including, among others, our executive officers, employees and directors and their respective affiliates, collectively held approximately 48.5% of the voting power of our outstanding capital stock as of such date. Because of the ten-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock will collectively continue to have significant influence over our management and affairs and over all matters requiring stockholder approval. These holders of our Class B common stock may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The effect of this dual class structure may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

Significant individual holders of our Class B common stock include our Chairman and Chief Executive Officer, Richard Stollmeyer. If, for example, Mr. Stollmeyer retains a significant portion of his holdings of shares of our Class B common stock for an extended period of time, he could control a significant portion of the voting power of our capital stock for the foreseeable future. In addition, Mr. Stollmeyer is one of two holders of an irrevocable proxy to vote certain shares of our Class A common stock and Class B common stock held by certain of our stockholders. As a board member, Mr. Stollmeyer owes a fiduciary duty to our stockholders and must act in good faith and in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, Mr. Stollmeyer is entitled to vote his shares in his own interest, which may not always be in the interests of our stockholders generally.

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our board of directors. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- establishing a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings; and
- authorizing two classes of common stock, as discussed above.

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

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding common stock not held by any such stockholder.

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

An active trading market for our Class A common stock may not be sustained.

Our Class A common stock is listed on The NASDAQ Global Market under the symbol “MB.” However, we cannot assure you that an active trading market for our Class A common stock will be sustained. Accordingly, we cannot assure you of the liquidity of any trading market, your ability to sell your shares of our Class A common stock when desired or the prices that you may obtain for your shares of our Class A common stock.

The market price of our Class A common stock may be volatile, and you could lose all or part of your investment.

Prior to our initial public offering, there had been no public market for shares of our Class A common stock. The market price of our Class A common stock since our initial public offering has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. Factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology securities;
- changes in operating performance and stock market valuations of other technology companies generally or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- political, economic and regulatory developments in the United States, including as a result of the recent presidential election;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;

- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

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

Future sales of shares of our Class A common stock in the public market, or the perception that such sales might occur, could depress the market price of our Class A common stock.

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. As of September 30, 2017, we had 42.6 million shares of Class A common stock and 4.0 million shares of Class B common stock outstanding. All outstanding shares of Class A common stock are freely tradable without restrictions or further registration under the Securities Act of 1933, as amended, or the Securities Act, except for any shares held by our affiliates as defined in Rule 144 under the Securities Act, shares held for less than one year in connection with any acquisition for which we did not issue registered shares, and subject in some cases to our insider trading policy.

In addition, shares of our capital stock (including those shares of our capital stock issued upon exercise of outstanding options to purchase shares of our Class A common stock and Class B common stock or upon settlement of outstanding restricted stock units) may be freely sold in the public market upon issuance and once vested, subject to other restrictions provided under the terms of the applicable plan and/or the award agreements, and except for any options or restricted stock units held by our affiliates and subject to our insider trading policy. Certain of our existing stockholders are also entitled under contracts providing for registration rights, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. Any sales of securities by these stockholders, or the expectation that such sales may occur, could have a material adverse effect on the trading price of our Class A common stock and make it more difficult for you to sell shares of our Class A common stock.

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the securities exchange on which our Class A common stock is traded and other applicable securities rules and regulations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, made some activities more difficult, time-consuming or costly, and increased demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

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

Being a public company and these new rules and regulations have made it more expensive for us to maintain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors, particularly to serve on our audit committee and compensation committee.

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In addition, as a result of our disclosure obligations as a public company, we have reduced strategic flexibility and are under pressure to focus on short-term results, which may adversely impact our ability to achieve long-term profitability.

We are an "emerging growth company," and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.

For so long as we remain an "emerging growth company," as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not "emerging growth companies," including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year following the fifth anniversary of the completion of our initial public offering, (ii) the last day of the first fiscal year in which our annual gross revenue is $1.07 billion or more, (iii) the date on which we have, during the previous rolling three-year period, issued more than $1 billion in non-convertible debt securities or (iv) the date on which we are deemed to be a "large accelerated filer" as defined in the Exchange Act. We cannot predict if investors will find our Class A common stock less attractive because we may rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock, and our stock price may be more volatile and may decline.

In addition, the JOBS Act also provides that an "emerging growth company" can take advantage of an extended transition period for complying with new or revised accounting standards. However, we have chosen to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

If our internal control over financial reporting is not effective, it may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock could decline.

Pursuant to the Exchange Act and Section 404 of the Sarbanes-Oxley Act, we are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting and we will be required to comply with the auditor attestation requirements when we cease to be an "emerging growth company" as defined in the JOBS Act. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. While management concluded that internal control over financial reporting was effective as of December 31, 2016, there can be no assurance that material weaknesses will not be identified in the future. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. As a result, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. Our remediation efforts may not enable us to avoid a material weakness in the future.

If material weaknesses or control deficiencies occur in the future, and we are unable to assert that our internal control over financial reporting is effective, or if our auditors, when required, are unable to attest to management's report on the effectiveness of our internal controls, we may be unable to report our financial results accurately or on a timely basis, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the trading price of our Class A common stock to decline. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation, financial condition or divert financial and management resources from our core business.

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

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

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We do not expect to declare any dividends on our Class A common stock in the foreseeable future so any returns will be limited to changes in the value of our Class A common stock.

We do not anticipate declaring any cash dividends on our Class A common stock in the foreseeable future. In addition, our existing loan agreement with Silicon Valley Bank imposes restrictions on our ability to pay dividends. Consequently, investors may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase shares of our Class A common stock.

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Item 6. Exhibits

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

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SIGNATURES

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

| | |
|---|---|
| | MINDBODY, INC. |
| Date: November 1, 2017 | By: /s/ Richard Stollmeyer<br>Richard Stollmeyer<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: November 1, 2017 | By: /s/ Brett White<br>Brett White<br>Chief Financial Officer and Chief Operating Officer<br>(Principal Financial Officer) |

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Exhibit Index

| Exhibit Number | Description | Incorporated by Reference Form | File No. | Exhibit | Filing Date |
|---|---|---|---|---|---|
| 31.1* | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | |
| 31.2* | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | |
| 32.1** | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | |
| 32.2** | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | |
| 101.INS* | XBRL Instance Document | | | | |
| 101.SCH* | XBRL Taxonomy Extension Schema Document | | | | |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document | | | | |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document | | | | |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document | | | | |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document | | | | |

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* Filed herewith.

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