

MINDBODY, Inc.  
Form 10-Q  
November 10, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

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

Commission File Number: 001-37453

MINDBODY, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-1898451  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
4051 Broad Street, Suite 220  
San Luis Obispo, CA 93401  
(Address of principal executive offices and zip code)  
(877) 755-4279  
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

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

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

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As of November 7, 2016, the registrant had 27,004,858 shares of Class A common stock, and 13,500,082 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, which involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

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

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

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form

10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations 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

## MINDBODY, INC.

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

(Unaudited)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$86,288	\$93,405
Accounts receivable, net of allowance for doubtful accounts of \$221 and \$90 as of September 30, 2016 and December 31, 2015	8,520	6,643
Prepaid expenses and other current assets	3,710	3,082
Total current assets	98,518	103,130
Property and equipment, net	33,658	31,754
Intangible assets, net	2,193	636
Goodwill	9,039	5,396
Other noncurrent assets	538	498
<b>TOTAL ASSETS</b>	<b>\$143,946</b>	<b>\$141,414</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$5,500	\$4,426
Accrued expenses and other liabilities	10,099	7,911
Deferred revenue, current portion	4,486	3,367
Other current liabilities	984	645
Total current liabilities	21,069	16,349
Deferred revenue, noncurrent portion	2,909	1,886
Deferred rent, noncurrent portion	1,359	1,254
Financing obligation on leases, noncurrent portion	15,640	15,961
Other noncurrent liabilities	996	181
Total liabilities	41,973	35,631
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Class A common stock, par value of \$0.000004 per share; 1,000,000,000 shares authorized, 26,769,797 shares issued and outstanding as of September 30, 2016; 1,000,000,000 shares authorized, 14,931,016 shares issued and outstanding as of December 31, 2015	—	—
Class B common stock, par value of \$0.000004 per share; 100,000,000 shares authorized, 13,650,774 shares issued and outstanding as of September 30, 2016; 100,000,000 shares authorized, 24,296,346 shares issued and outstanding as of December 31, 2015	—	—
Additional paid-in capital	285,641	270,436
Accumulated other comprehensive loss	(247 )	(271 )
Accumulated deficit	(183,421 )	(164,382 )
Total stockholders' equity	101,973	105,783
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$143,946</b>	<b>\$141,414</b>

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 share and per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$35,262	\$ 26,081	\$100,830	\$ 73,104
Cost of revenue	10,972	9,596	31,657	27,098
Gross profit	24,290	16,485	69,173	46,006
Operating expenses:				
Sales and marketing	14,599	12,389	41,534	33,926
Research and development	7,747	6,012	22,758	16,213
General and administrative	7,346	7,256	22,550	21,298
Change in fair value of contingent consideration	—	—	—	(11 )
Total operating expenses	29,692	25,657	86,842	71,426
Loss from operations	(5,402 )	(9,172 )	(17,669 )	(25,420 )
Change in fair value of preferred stock warrant	—	—	—	(25 )
Interest expense, net	(261 )	(335 )	(865 )	(612 )
Other expense, net	(90 )	(20 )	(226 )	(112 )
Loss before provision for income taxes	(5,753 )	(9,527 )	(18,760 )	(26,169 )
Provision for income taxes	142	101	279	169
Net loss	(5,895 )	(9,628 )	(19,039 )	(26,338 )
Accretion of redeemable convertible preferred stock	—	—	—	(9,862 )
Deemed dividend—preferred stock modification	—	—	—	1,748
Net loss attributable to common stockholders	\$(5,895 )	\$(9,628 )	\$(19,039 )	\$(34,452 )
Net loss per share attributable to common stockholders, basic and diluted	\$(0.15 )	\$(0.25 )	\$(0.48 )	\$(1.57 )
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	39,965,454	39,181,118	39,708,257	21,976,654

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,	
	2016	2015	2016	2015
Net loss	\$(5,895)	\$(9,628)	\$(19,039)	\$(26,338)
Other comprehensive gain (loss), net of taxes:				
Change in cumulative translation adjustment	(6 )	(89 )	24	(160 )
Comprehensive loss	\$(5,901)	\$(9,717)	\$(19,015)	\$(26,498)

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

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## MINDBODY, INC.

Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholder's Equity (Deficit)  
(in thousands, except share data)  
(Unaudited)

	Redeemable Convertible Preferred Stock		Class A and B Common Stock <sup>(1)</sup>				Accumulated Other Comprehensive Loss	Total Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Additional Paid-In Capital				
Balance as of December 31, 2014	20,454,489	\$ 166,448	11,189,360	\$ —	\$ —	\$ (132 )	\$(124,793 )	\$(124,925 )	
Reclassification of restricted stock award liability to common stock	—	—	—	—	88	—	—	88	
Deemed dividend—preferred stock modification	—	(1,748 )	—	—	—	—	1,748	1,748	
Accretion of redeemable convertible preferred stock to redemption value	—	9,862	—	—	(4,613 )	—	(5,249 )	(9,862 )	
Issuance of common stock upon initial public offering, net of offering costs of \$4,024	—	—	7,150,000	—	89,069	—	—	89,069	
Conversion of redeemable convertible preferred stock to common stock in connection with initial public offering	(20,454,489)	(174,562 )	20,673,680	—	174,562	—	—	174,562	
Reclassification of preferred stock warrant liability to equity in connection with initial public offering	—	—	—	—	1,213	—	—	1,213	
Stock-based compensation expense	—	—	—	—	8,375	—	—	8,375	
Issuance of common stock for equity awards	—	—	34,140	—	242	—	—	242	
Issuance of common stock upon net exercise of warrants	—	—	76,565	—	—	—	—	—	
	—	—	103,617	—	1,500	—	—	1,500	

Issuance of stock for business acquisition								
Other comprehensive loss	—	—	—	—	—	(139 )	—	(139 )
Net loss	—	—	—	—	—	—	(36,088 )	(36,088 )
Balance as of December 31, 2015	—	—	39,227,362	—	270,436	(271 )	(164,382 )	105,783
Stock-based compensation expense	—	—	—	—	6,606	—	—	6,606
Issuance of common stock for contingent consideration payment	—	—	207,234	—	—	—	—	—
Issuance of common stock for equity awards, net of tax withholdings	—	—	679,801	—	5,059	—	—	5,059
Issuance of common stock under employee stock purchase plan	—	—	277,215	—	3,040	—	—	3,040
Issuance of common stock related to HealCode Acquisition	—	—	28,959	—	500	—	—	500
Other comprehensive income	—	—	—	—	—	24	—	24
Net loss	—	—	—	—	—	—	(19,039 )	(19,039 )
Balance as of September 30, 2016	—	\$—	40,420,571	\$	-\$285,641	\$ (247 )	\$(183,421 )	\$ 101,973

The activity through June 24, 2015 reflects the sole class of common stock authorized through the closing of the IPO on June 24, 2015, at which point the Company's certificate of incorporation was amended and restated to authorize Class A and Class B common stock. All capital stock outstanding prior to the IPO was reclassified into Class B common stock and Class A common stock was issued in the IPO.

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,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(19,039)	\$(26,338)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,671	4,657
Stock-based compensation expense	6,606	5,250
Change in fair value of preferred stock warrant	—	25
Other	820	343
Changes in operating assets and liabilities net of effects of acquisitions:		
Accounts receivable	(2,229)	(3,498)
Prepaid expenses and other current assets	(605)	6
Other assets	(67)	138
Accounts payable	(52)	626
Accrued expenses and other liabilities	2,635	2,898
Deferred revenue	2,031	1,804
Deferred rent	105	220
Net cash used in operating activities	(4,124)	(13,869)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(6,466)	(7,989)
Change in restricted cash and deposits	—	788
Acquisition of business	(4,138)	(3,000)
Net cash used in investing activities	(10,604)	(10,201)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of equity awards	4,884	67
Proceeds from employee stock purchase plan	3,040	—
Repayment on financing and capital lease obligations	(287)	(144)
Proceeds from initial public offering	—	93,093
Payments of deferred offering cost	—	(3,262)
Other	(33)	(73)
Net cash provided by financing activities	7,604	89,681
Effect of exchange rate changes on cash and cash equivalents	7	(176)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(7,117)</b>	<b>65,435</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>93,405</b>	<b>34,675</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$86,288</b>	<b>\$100,110</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for income taxes	186	66
Cash paid for interest	980	604
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accretion of redeemable convertible preferred stock to redemption value	—	9,862
Deemed dividend—preferred stock modification	—	1,748
Conversion of preferred stock warrants to common stock warrants	—	1,213

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Unpaid equipment purchases	1,592	963
Property and equipment acquired with financing obligations and leases	—	844
Stock issued in business acquisition	500	1,500
Unpaid acquisition consideration held back to satisfy potential indemnification claims	750	—
Unpaid offering costs	—	118

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 California, New York, Texas, Arizona, 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 an emerging consumer marketplace. Its integrated software and payments platform helps business owners in the wellness services industry run, market and build their businesses. MINDBODY’s platform enables consumers to evaluate, engage, and transact with these businesses.

Initial Public Offering

In June 2015, the Company completed its initial public offering (“IPO”) in which it issued and sold 7,150,000 shares of its Class A common stock, \$0.000004 par value, at a public offering price of \$14.00 per share. The Company received net proceeds of \$93,093,000 after deducting underwriting discounts and commissions of \$7,007,000, but before deducting offering expenses of \$4,024,000. Immediately prior to the closing of the IPO, all shares of the Company’s then-outstanding redeemable convertible preferred stock were automatically converted and reclassified into 20,673,680 shares of its Class B common stock, \$0.000004 par value, and all shares of the Company’s then-outstanding common stock were automatically reclassified into 11,305,355 shares of Class B common stock.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements are presented in accordance with United States generally accepted accounting principles (“U.S. 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 U.S. GAAP, and following 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 U.S. 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, 2016. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. 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, 2015 included in the Annual Report on Form 10-K (the “Annual Report”), which was filed with the SEC on March 4, 2016.

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### Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. 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.

### Summary of Significant Accounting Policies

There have been no changes in the Company's significant accounting policies from those that were disclosed in the Annual Report that have had a material impact on the Company's condensed consolidated financial statements and related notes.

### Concentration of Credit Risk

As of September 30, 2016, one customer represented 19% of the accounts receivable balance. As of December 31, 2015, one customer represented 18% 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.

### Recently Issued and Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to Financial Instruments Credit Losses. The new guidance changes the impairment model for most financial assets, and will require the use of an expected loss model in place of the currently used incurred loss method. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. The update to the standard is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements and disclosures.

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 (the "new revenue standard"). The new revenue standard 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 the new revenue standard, related to identifying performance obligations and licensing implementation guidance contained in the new revenue standard. In May 2016, the FASB issued an update that provides narrow scope improvements and practical expedients related to the new revenue standard. The improvements address completed contracts and contract modifications at transition, noncash 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 new revenue standard and all related updates are effective for the Company beginning in the first fiscal quarter of fiscal 2018. Early adoption is permitted. The new revenue standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements and disclosures.

On March 30, 2016, the 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. The new guidance is effective for the Company beginning January 1, 2017. The Company is evaluating the impact of the new standard on its consolidated financial statements.



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On February 25, 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 November 2015, the FASB issued authoritative guidance related to balance sheet classification of deferred taxes. The new guidance requires entities to present deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) as noncurrent in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or noncurrent in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance. The new authoritative guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. The guidance is not expected to have a material impact on the Company’s consolidated financial statements.

**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 re-measured on a recurring basis, by level within the fair value hierarchy (in thousands):

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds <sup>(1)</sup>	\$80,990	\$	—\$	—\$80,990

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds <sup>(1)</sup>	\$90,524	\$	—\$	—\$90,524

- (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, 2016 and December 31, 2015 were recorded based on Level 1 inputs.

There were no transfers of financial instruments between the three levels of the fair value hierarchy during the three and nine months ended September 30, 2016. As of September 30, 2016 and December 31, 2015, the Company did not have any assets or liabilities that were required to be measured at fair value on a nonrecurring basis.

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## 3. BALANCE SHEET COMPONENTS

## Property and Equipment, net

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

	September 30, 2016	December 31, 2015
Computer equipment	\$ 16,403	\$ 13,195
Leasehold improvements	11,196	9,882
Capitalized software development costs	1,878	1,888
Office equipment	2,608	2,336
Software licenses	2,932	1,768
Building, leased	16,438	16,438
Property and equipment – gross	51,455	45,507
Less: accumulated depreciation and amortization	(17,797 )	(13,753 )
Property and equipment – net	\$ 33,658	\$ 31,754

Depreciation and amortization expense, excluding amortization of capitalized software and intangible assets, for the three months ended September 30, 2016 and 2015 was \$1,839,000 and \$1,655,000, respectively. Depreciation and amortization expense, excluding amortization of capitalized software and intangible assets, for the nine months ended September 30, 2016 and 2015 was \$5,190,000 and \$4,164,000, respectively.

The Company amortized software development costs of \$65,000 and \$76,000 during the three months ended September 30, 2016 and 2015, respectively. The Company amortized software development costs of \$220,000 and \$232,000 during the nine months ended September 30, 2016 and 2015, respectively. The net book value of capitalized software development costs was \$121,000 and \$351,000 as of September 30, 2016 and December 31, 2015, respectively.

During the year ended December 31, 2013, the Company executed a lease for a 64,000 square foot office building in San Luis Obispo, California. This facility provides additional capacity to accommodate continued growth, and became operational in the second quarter of 2015. Both the landlord and the Company incurred costs to construct the facility according to the Company's operating specifications, and as a result, the Company has concluded that it was the "deemed owner" of the building (for accounting purposes only) during the construction period. During April 2015, the Company began to occupy the additional office space and no additional construction costs have been incurred since then. Upon completion of the construction, the Company was also the "deemed owner" of the building for accounting purposes as the asset did not qualify for sale-leaseback accounting treatment due to the Company's continuing involvement. As such, costs included in construction-in-progress for the building were recorded to "Building, leased" within "Property and equipment, net" and the related financing obligation of \$15,975,000 remained recorded as of September 30, 2016. The obligation is being settled through monthly lease payments to the landlord since completion of the construction, and the asset is being depreciated over the initial term of the lease. 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 Company is responsible for paying the landlord's insurance costs, real property taxes, and operating expenses related to the premises as additional rent.

## Accrued Expenses and Other Liabilities

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

	September 30, 2016	December 31, 2015
Accrued payroll	\$ 6,396	\$ 3,918
Accrued vacation	2,224	1,699
Employee stock purchase plan contributions	427	1,496
Other liabilities	1,052	798
Total accrued expenses and other liabilities	\$ 10,099	\$ 7,911



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## 4. BUSINESS COMBINATION

## 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.

The total purchase consideration of \$5,388,000 consisted of the payment of \$4,888,000 in cash, \$750,000 of which has been held back by the Company for a period of eighteen (18) months to satisfy potential indemnification claims, and the issuance of \$500,000 of the Company’s Class A common stock.

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. 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 acquisition provided the Company with acquired intangible assets of value, i.e., internally developed software/technology. 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 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.

## Fitness Mobile Apps

On February 2, 2015, the Company completed the acquisition of the Fitness Mobile Apps business of Petrol Designs LLC (“Fitness Mobile Apps”), a privately held technology partner that creates tailored mobile apps for the Company’s subscribers. The Company accounted for the acquisition of Fitness Mobile Apps as a business combination. The Company acquired all of the assets that were used in, or otherwise benefit, the mobile apps business for 103,617 shares of the Company’s common stock with a fair value of \$14.476 per share, of which 74,260 shares were issued and 29,357 shares were held with an escrow agent and were released in February 2016 following the first anniversary of the closing date, and \$3,000,000 in cash, resulting in an aggregate purchase price of \$4,500,000. The acquisition also included an obligation to issue up to 207,234 shares of the Company’s common stock to certain former employees of Fitness Mobile Apps, contingent upon performance obligations and their continuous employment with the Company. The measurement period for the contingent consideration ended during the nine months ended September 30, 2016 and the Company issued 207,234 shares of Class A common stock to such former employees of Fitness Mobile Apps on February 22, 2016 under its 2015 Equity Incentive Plan (see Note 9 Common Stock and Stockholder’s Equity below). The related compensation expense for the fair value of these additional shares was recorded ratably over the respective service period.



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The fair value of the Company's common stock issued for the Fitness Mobile Apps acquisition was based on the Company's valuation of its common stock as of February 2, 2015. Given the absence of a public trading market, the Company's board of directors considered numerous objective and subjective factors to determine the fair value of the Company's common stock. These factors included, but were not limited to (i) contemporaneous third-party valuations of common stock; (ii) the rights and preferences of convertible preferred stock relative to common stock; (iii) the lack of marketability of common stock; (iv) developments in the business; and (v) the likelihood of achieving a liquidity event, such as an IPO or sale of the Company, given prevailing market conditions. The aggregate enterprise value was determined using a combination of the income approach and two market approaches in order to estimate an Enterprise Value under five different possible future scenarios, which were weighted as follows:

	Weighting
IPO	75 %
Transaction	20 %
Private company (DCF)	5 %

The Company allocated the total purchase consideration to tangible assets acquired and identifiable intangible assets acquired based on their estimated fair values with the excess of the purchase consideration over the aggregate fair values recorded as goodwill allocated to the Company's one operating segment. Goodwill of \$3,569,000 represents 80% of the total purchase consideration and is primarily attributable to the value of acquired personnel, and the Company's ability to expand its consumer base by transitioning Fitness Mobile Apps onto its platform. Goodwill is amortized over 15 years for tax purposes.

The internally developed software/technology with a remaining useful life of three years represents the tools to create consumer facing customized mobile apps for the Company's subscribers. The fair values of the acquired intangible assets were determined based on the income approach and relief-from-royalty method approach and the identifiable intangible assets are subject to amortization on a straight-line basis over their remaining useful lives.

The Company incurred and expensed \$150,000 in acquisition-related costs, which are included within general and administrative expenses on the consolidated statements of operations.

The following table summarizes the consideration paid and the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	Amount
Tangible assets acquired	\$ 18
Intangible asset – developed software/technology	913
Goodwill	3,569
Fair value of total purchase consideration	\$ 4,500

The results of Fitness Mobile Apps 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's goodwill balance is solely attributable to the acquisition of HealCode, Fitness Mobile Apps, and Jill's List. The goodwill balance was \$9,039,000 as of September 30, 2016 and \$5,396,000 as of December 31, 2015. There have been no impairment charges recorded against goodwill.

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

	September 30, 2016				
	Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Network list	2	420	(420)	—	

Technology	3 to 5	2,731	(538	)	2,193
Total intangible assets		3,151	(958	)	2,193

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	December 31, 2015			
	Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Network list	2	420	(420 )	—
Technology	3	913	(277 )	636
Total intangible assets		1,333	(697 )	636

Amortization expense for intangible assets with finite lives was \$109,000 and \$77,000 for the three months ended September 30, 2016 and 2015, respectively and \$261,000 and \$261,000 for the nine months ended September 30, 2016 and 2015, respectively.

The expected future annual amortization expense of intangible assets as of September 30, 2016 is presented below (in thousands):

Year Ending December 31,	
2016 (remaining three months)	\$ 168
2017	666
2018	390
2019	363
2020	364
2021 and after	242
Total amortization expense	\$2,193

**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. Amounts outstanding under the credit facility will bear interest at the greater of the prime rate plus 0.5% or 3.25% with accrued interest payable on a monthly basis and outstanding and unpaid principal due upon maturity of the credit facility in January 2018. The credit facility is secured by substantially all of the Company's corporate assets. Borrowings under the Company's loan agreement are available based on a percentage of the Company's monthly recurring revenue for the previous three months. The Company also granted and pledged a security interest to the lender in all of its right, title, and interest in intellectual property. The Company is also subject to certain reporting and financial performance covenants as well which require it to meet certain revenue targets. The Company did not draw down any amounts under the credit agreement during the three and nine months ended September 30, 2016.

**7. COMMITMENTS AND CONTINGENCIES****Operating Lease**

The Company leases office facilities under various non-cancelable operating lease agreements with original lease periods expiring between 2016 and 2026. Rent expense was \$1,219,000 and \$1,117,000 for the three months ended September 30, 2016 and 2015, respectively. Rent expense was \$3,515,000 and \$3,210,000 for the nine months ended September 30, 2016 and 2015, respectively.



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## Financing Obligation

During April 2015, the Company began to occupy additional office space constructed under a 15 year build-to-suit lease arrangement entered into in October 2013. During the construction of the facility, the Company concluded that it was the “deemed owner” for accounting purposes due to its extensive involvement in the construction process. Upon completion of the construction, the Company was still considered to be the “deemed owner” of the building for accounting purposes as the asset did not qualify for sale-leaseback accounting treatment due to the Company’s continuing involvement. As such, costs for the building were recorded to “Building, leased” within “Property and equipment, net” and the related financing obligation of \$15,975,000 remained recorded as of September 30, 2016. The portion of the lease obligation allocated to the land is being treated for accounting purposes as an operating lease.

## Future Minimum Lease Payments

Future minimum lease payments under non-cancelable lease agreements as of September 30, 2016 were as follows (in thousands):

Year Ending December 31,	Operating Leases	Financing Obligation, Building-Leased	Total
2016 (remaining three months)	\$ 817	\$ 399	\$ 1,216
2017	2,558	1,630	4,188
2018	2,063	1,679	3,742
2019	1,940	1,729	3,669
2020	1,915	1,781	3,696
Thereafter	10,817	19,362	30,179
Total minimum lease payments	\$ 20,110	\$ 26,580	\$ 46,690

The remaining future minimum lease payments on the building, leased, include interest of \$10,605,000 to be recognized over the remainder of the initial term of the lease agreement. A financing obligation of \$15,975,000 remained recorded as of September 30, 2016.

## Purchase Commitments

Future unconditional purchase commitments for software subscriptions and data center and communication services as of September 30, 2016 were as follows (in thousands):

Year Ending December 31,	
2016 (remaining three months)	\$ 1,013
2017	3,228
2018	2,863
2019	725
Total minimum purchase commitments	\$ 7,829

## 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.

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In connection with entering into a credit facility during the year ended December 31, 2010, the Company issued a warrant to purchase 87,500 shares of Series C redeemable convertible preferred stock to the lender. The warrant was fully vested and exercisable upon issuance, had an expiration date in June 2020, and had an exercise price of \$2.54 per share. During the year ended December 31, 2015, the exercise price for the warrant was modified to \$1.732 per share. The impact of this modification was not material. Prior to the IPO, the warrant was required to be treated as a liability and recorded at estimated fair value, with changes in fair value at each reporting date recognized in the consolidated statements of operations, since the warrant was exercisable into conditionally redeemable shares of preferred stock. The change in the fair value of the warrant was \$0 and \$(25,000) for the three and nine months ended September 30, 2015, respectively, and was recognized in the condensed consolidated statements of operations. In connection with the IPO completed on June 24, 2015, the warrant to purchase 87,500 shares of Series C redeemable convertible preferred stock converted into a warrant to purchase 89,177 shares of Class B common stock with an aggregate exercise price of \$151,603, and the related preferred stock warrant liability was reclassified to additional paid-in capital, a component of stockholders' equity (deficit), and the Company ceased recording any further related periodic fair value adjustments. The warrant was exercised on a net basis on July 24, 2015, which resulted in the issuance of 76,565 shares of Class B common stock.

**9. COMMON STOCK AND STOCKHOLDER'S EQUITY****Amendment and Restatement of Certificate of Incorporation**

In March 2015, the Company adopted an amended and restated certificate of incorporation (the "Pre-IPO Restated Certificate") to modify the dividend, conversion and liquidation rights of the Series A, Series B, Series C and Series D redeemable convertible preferred stock. Under the Pre-IPO Restated Certificate, the Series C and Series D were no longer entitled to cumulative dividends upon a liquidation of the Company, and the Series A, Series B, Series C, and Series D were no longer entitled to receive cumulative dividends upon conversion into common stock, including in connection with an initial public offering. In addition, under the Pre-IPO Restated Certificate, the conversion ratio of each series of redeemable convertible preferred stock, which was 1-to-1 for all series prior to the amendment, was adjusted to 1.0088 for Series A, 1.0148 for Series B, 1.0192 for Series C, and 1.0218 for Series D. As a result of this amendment, the redeemable convertible preferred stock became convertible into shares of common stock upon a qualifying event, including completion of an initial public offering, as follows:

Preferred Stock	Number of Shares, Actual	Conversion Rate	Number of Shares, As Converted
Series A	1,319,940	1.0088	1,331,507
Series B	988,411	1.0148	1,003,071
Series C	4,019,524	1.0192	4,096,561
Series D	5,308,875	1.0218	5,424,802
Series E	2,439,058	1.0000	2,439,058
Series F	2,685,997	1.0000	2,685,997
Series G	3,692,684	1.0000	3,692,684
Total	20,454,489		20,673,680

The Company has determined that the changes to the rights underlying the Series A, Series B, Series C and Series D preferred stock resulted in a modification, for accounting purposes, of these shares. The change in the fair value of the Series A, Series B, Series C, and Series D immediately before and after the amendment was recognized as a deemed dividend of \$1,748,000 from the Series A, Series B, Series C and Series D preferred stockholders, which was recorded as a reduction of accumulated deficit during the nine months ended September 30, 2015.

The fair value of the Series A, Series B, Series C, and Series D preferred stock immediately before and after the amendment was estimated by the Company's board of directors with assistance from a third-party valuation that utilized methodologies and assumptions consistent with the Company's most recent common stock valuations,

including on a minority, nonmarketable interest basis. The Company's aggregate enterprise value was determined using a combination of valuation approaches, including an income approach and various market approaches, and under five different possible future scenarios.

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### Preferred Stock

Immediately prior to the completion of the IPO, all outstanding convertible preferred stock was converted and reclassified into 20,673,680 shares of Class B common stock and the Company's certificate of incorporation was amended and restated to authorize the Company to issue 100,000,000 shares of preferred stock with a par value of \$0.000004 per share. No shares of preferred stock were issued or outstanding as of September 30, 2016 and December 31, 2015.

### Common Stock

Immediately prior to the completion of the 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.

Following the IPO, shares of the Company's Class A common stock have 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.

### Stock Split

In June 2015, the Company's board of directors approved the amendment and restatement of the Company's certificate of incorporation to give effect to a 2.5-for-1 stock split of the Company's common stock and redeemable convertible preferred stock (collectively, the "Capital Stock"), which became effective on June 4, 2015. Accordingly, (i) each one share of outstanding Capital Stock was split into 2.5 shares of Capital Stock of the same class and series, as applicable; (ii) the number of shares of Capital Stock issuable on the exercise of each outstanding warrant or option to purchase Capital Stock was proportionately increased on a 2.5-for-1 basis; (iii) the exercise price of each outstanding warrant or option to purchase Capital Stock was proportionately reduced on a 2.5-for-1 basis; (iv) the authorized number of each class and series of Capital Stock was proportionally increased in accordance with the 2.5-for-1 stock split; and (v) the par value of each class of Capital Stock was proportionately reduced in accordance with the 2.5-for-1 stock split. All of the share numbers, share prices, and exercise prices have been adjusted within these financial statements, on a retroactive basis, to reflect this 2.5-for-1 stock split.

### 2015 Equity Incentive Plan

The Company's 2015 Equity Incentive Plan ("2015 Plan") became effective on June 17, 2015 and serves as the successor to the Company's 2009 Stock Option Plan ("2009 Plan"). As of September 30, 2016, there were 5,402,196 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 least 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, 2016, the number of shares available for issuance under the 2015 Plan was increased by 1,961,368 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, 2016, options to purchase 684,100 shares of Class A common stock and 718,153 restricted stock units ("RSUs") which will be settled in shares of Class A common stock remained outstanding under the 2015 Plan.

The acquisition of Fitness Mobile Apps discussed in Note 4 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 nine months ended September 30, 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 nine months ended September 30, 2016.

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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 requires 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 4 years. These awards are contingent upon the related employees' continuous employment with us. As such, compensation expense is being recorded over the requisite service period of approximately 4 years.

2015 Employee Stock Purchase Plan

The Company's 2015 Employee Stock Purchase Plan ("2015 ESPP") became effective on June 2, 2015. As of September 30, 2016, there were 898,194 shares of Class A common stock available for issuance under the 2015 ESPP. The number of shares available for sale under the 2015 ESPP includes an annual increase on the first day of each fiscal year beginning in 2016, equal to the least 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, 2016, the number of shares available for issuance under the 2015 ESPP was increased by 392,273 shares of Class A common stock.

Under the 2015 ESPP, eligible employees are granted options to purchase shares of Class A common stock through payroll deductions. The 2015 ESPP provides for 24 month offering periods. Each offering period will include purchase periods, which will be 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 22 and August 22 of each year. The Company commenced its first offering period under the 2015 ESPP on June 18, 2015. Employees purchased 277,215 shares of Class A common stock for \$3,040,000 under the 2015 ESPP during the nine months ended September 30, 2016.

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, 2016, options to purchase 3,373,147 shares of Class B common stock remained outstanding under the 2009 Plan.

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 life years):

	Number of Shares	Weighted- Average Grant Date Fair Value (per share)	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Unvested balance – December 31, 2015	—	\$ —		\$ —
Granted	937,863	13.74		
Vested	(207,860)	12.92		
Forfeited	(11,850)	13.84		
Unvested balance – September 30, 2016	671,153	\$ 13.97	3.8	\$ 14,119
Expected to vest – September 30, 2016	679,139	\$ 13.97	3.8	\$ 13,352

As of September 30, 2016, there was a total of \$8,955,000 in unrecognized compensation cost related to unvested RSUs, which is expected to be recognized over a weighted average period of approximately 3.4 years.



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## Stock Option Activity

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2016 (in thousands, except share numbers, per share amounts, and contractual life years):

	Options Outstanding		Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price		
Outstanding – December 31, 2015	4,311,463	\$ 9.87	7.9	\$ 22,709
Granted	612,144	13.89	9.4	
Exercised	(679,175 )	7.45	—	
Forfeited or cancelled	(187,185 )	12.68	—	
Outstanding – September 30, 2016	4,057,247	\$ 10.75	7.9	\$ 36,161
Exercisable – September 30, 2016	2,089,327	\$ 7.93	6.6	\$ 24,514
Vested and expected to vest – September 30, 2016	3,988,909	\$ 10.70	7.6	\$ 35,755

Total intrinsic value of stock options exercised during the three and nine months ended September 30, 2016 was \$5,196,000 and \$6,389,000, respectively.

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

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Expected term (in years)	5.8	5.8
Expected volatility	44% - 45%	45% - 46%
Risk-free interest rate	1.2% - 1.5%	1.4% - 1.8%
Dividend yield	0%	0%

As of September 30, 2016, the total unrecognized stock-based compensation expense for unvested stock options, net of expected forfeitures, was \$11,618,134, which is expected to be recognized over a weighted-average period of 2.7 years.

## Other Stock-Based Compensation

During the three months ended September 30, 2016 and 2015, the Company recorded stock-based compensation expense of zero and \$756,000, respectively, and during the nine months ended September 30, 2016 and 2015, the Company recorded stock-based compensation expense of \$271,000 and \$1,972,000, respectively, related to contingent bonuses to certain former employees of Fitness Mobile Apps payable in shares of the Company's common stock for post-combination employment services.

There were no non-employee grants and, accordingly, no stock-based compensation expense associated with non-employee grants during the three and nine months ended September 30, 2016.

Total stock-based compensation expense was allocated as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Cost of revenue	\$231	\$219	\$666	\$451
Sales and marketing	613	1,043	1,636	2,487



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Research and development	490	288	1,456	546
General and administrative	975	735	2,848	1,766
Total stock-based compensation expense	\$2,309	\$2,285	\$6,606	\$5,250

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## 10. INCOME TAXES

The Company recorded an income tax expense of \$142,000 and \$279,000 for the three and nine months ended September 30, 2016, respectively. This tax expense is largely attributable to the deferred tax liability associated with the amortization of 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, 2016 was negative 2.5 percent and negative 1.5 percent, respectively, primarily as a result of estimated tax losses for the fiscal year offset by the increase in the valuation allowance on the net operating loss carryforwards.

Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), places a limitation on the realizability of Net Operating Losses ("NOLs") in future periods if the ownership of the Company has changed more than 50% within a three-year period. During the year ended December 31, 2015, the Company completed an analysis under Code Section 382 through December 31, 2014, and determined that it experienced multiple ownership changes during this period. U.S. federal NOLs of approximately \$430,000 are expected to expire unused due to limitations under Section 382 and, as such, have not been reflected in its NOLs. The Company's ability to use NOL carryforwards may also be limited by Section 382 of the Code if it determines that the Company experienced an ownership change in connection with the IPO or as result of subsequent equity transactions. However, any limitations would not have impacted the results of its operations and cash flows because the Company has recorded a valuation allowance against its net deferred tax assets as of September 30, 2016 and December 31, 2015.

## 11. 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 share and per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss attributable to common stockholders	\$(5,895)	\$(9,628)	\$(19,039)	\$(34,452)
Net loss per share attributable to common stockholders, basic and diluted	\$(0.15)	\$(0.25)	\$(0.48)	\$(1.57)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	39,965,453	39,181,118	39,708,257	21,976,654

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,	
	2016	2015
Shares subject to outstanding stock options and employee stock purchase plan	4,093,778	4,519,766
Shares subject to outstanding restricted stock units	718,153	—
Total	4,811,931	4,519,766

## 12. 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.



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## Revenue

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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2016	2015	2016	2015
Revenue:				
Subscription and services	\$21,185	\$15,965	\$60,554	\$44,346
Payments	13,484	9,539	38,540	26,840
Product and other	593	577	1,736	1,918
Total revenue	\$35,262	\$26,081	\$100,830	\$73,104

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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2016	2015	2016	2015
United States	\$29,000	\$21,843	\$83,639	\$61,160
Other	6,262	4,238	17,191	11,944
Total	\$35,262	\$26,081	\$100,830	\$73,104

Substantially all of the Company's assets were attributable to operations in the United States as of September 30, 2016 and December 31, 2015.

**13. RELATED-PARTY TRANSACTIONS**

The Company incurred office repair, maintenance, building fixtures and other professional services expenses of \$58,000 and \$199,000 for the three and nine months ended September 30, 2015, respectively, with related parties.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes 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 an emerging consumer marketplace, with over 58,000 local business subscribers on our platform in over 130 countries and territories. These subscribers provide a variety of wellness services to approximately 35 million active consumers as of September 30, 2016. We are also a leading payments platform dedicated to the wellness services industry. For the three months ended September 30, 2016 and 2015, approximately \$2.1 billion and \$1.7 billion in transaction volume occurred between consumers and subscribers within our marketplace, of which \$1.6 billion and \$1.3 billion flowed through our payments platform, respectively. This represents a \$0.4 billion, or 23%, increase in transaction volume that occurred between consumers and subscribers within our marketplace and a \$0.3 billion, or 26%, increase in transaction volume that flowed through our payments platform. For the nine months ended September 30, 2016 and 2015, approximately \$6.4 billion and \$5.2 billion in transaction volume occurred between consumers and subscribers within our marketplace, of which \$4.7 billion and \$3.7 billion flowed through our payments platform, respectively. This represents a \$1.2 billion, or 22%, increase in transaction volume that occurred between consumers and subscribers within our marketplace and a \$1.0 billion, or 28%, increase in transaction volume that flowed through our payments platform.

We primarily market and sell subscriptions to our cloud-based business management platform with integrated payments processing to small and medium-sized businesses in the wellness services industry, including businesses that offer yoga, Pilates, barre, indoor cycling, personal training, martial arts and dance exercise, as well as spas, salons, music instruction studios, dance studios, children’s activity centers and integrative health centers.

We offer our software platform to our subscribers as a subscription-based service. Historically, our software subscription pricing was based on the number of professionals employed by our subscribers. In 2015, after substantial market testing and development, we introduced a new tiered pricing model based on software functionality. The vast majority of our subscribers subscribe to our software platform through one month contracts that are billed in advance. We recognize software subscription revenue ratably over the term of the subscription period. Additionally, we earn revenue based on the value of transactions processed by our subscribers utilizing our payments platform, net of the costs charged to us by our processing partners.

We intend to continue scaling our organization in order to meet the needs of our growing subscriber base. We have invested and expect to continue to invest in our sales and marketing teams to sell our software and payments platform services globally. Our sales and marketing organizations’ headcount grew at a compound annual growth rate of 31% from 2012 to 2015. 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, we have increased both the number of 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 by pursuing strategic acquisitions of complementary businesses and technologies that will enable us to continue to drive growth in the future. 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 advance of, and 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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During the three months ended September 30, 2016 and 2015, our revenue was \$35.3 million and \$26.1 million, respectively, representing year-over-year growth of 35%. Our net loss was \$5.9 million and \$9.6 million during the three months ended September 30, 2016 and 2015, respectively. Our Adjusted EBITDA was negative \$1.1 million and negative \$5.1 million during the three months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, our revenue was \$100.8 million and \$73.1 million, respectively, representing year-over-year growth of 38%. Our net loss was \$19.0 million and \$26.3 million during the nine months ended September 30, 2016 and 2015, respectively. Our Adjusted EBITDA was negative \$5.4 million and negative \$15.5 million during the nine months ended September 30, 2016 and 2015, respectively. 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, 2016 and 2015 approximately 83% and 84%, respectively, of our revenue came from the United States. Our employee headcount has increased to 1,344 employees as of September 30, 2016 from 1,235 as of September 30, 2015, of which approximately 26% are engaged in supporting existing subscribers and approximately 53% are engaged in increasing our subscriber base, growing our consumer brand or developing future products, as of September 30, 2016.

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,	
	2016	2015
Subscribers (end of period)	58,566	48,650
Average monthly revenue per subscriber	\$204	\$182
Payments volume (in billions)	\$1.6	\$1.3
Dollar-based net expansion rate (end of period)	115 %	119 %

**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 a key indicator of the growth of our platform. Growth in the number of subscribers depends, in part, on our ability to successfully develop and market our platform to local wellness businesses and their consumers who have not yet become part of our network. While growth in the number of subscribers is 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 to support expected future subscriber growth. For example, as the number of subscribers increases, we will need to increase the headcount in our customer support organization and increase our IT infrastructure capital expenditures to maintain the effectiveness of our platform and the performance of our software for our subscribers and their consumers. The number of subscribers increased as of September 30, 2016 compared to September 30, 2015, and we expect the number of subscribers to continue to increase in the future. The growth rate of the number of subscribers declined for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 and may continue to do so in the future as the size of our subscriber base increases 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 period, divided by the number of months in the period. ARPS increased for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, and we expect it to continue to increase in the future, although we expect the growth rate to fluctuate over time.



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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 their consumers utilizing our payments platform. Payments volume increased for the three months ended September 30, 2016 compared to the