

ExactTarget, Inc.
Form S-1/A
March 05, 2012
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As filed with the Securities and Exchange Commission on March 5, 2012

Registration No. 333-178147

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

Amendment No. 4
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ExactTarget, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
Incorporation or organization)

7372
(Primary Standard Industrial
Classification Code Number)

20-1367351
(I.R.S. Employer

20 North Meridian Street, Suite 200 Indianapolis, Indiana 46204 (317) 423-3928 (Address, including zip code, and telephone number,

Identification Number)

including area code, of registrant's principal executive offices)

Scott D. Dorsey Chief Executive Officer 20 North Meridian Street, Suite 200 Indianapolis, Indiana 46204 (317) 423-3928 (Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Howard B. Adler

Steven K. Humke

Jeffrey D. Saper

Anne L. Benedict

Ice Miller LLP

J. Robert Suffoletta, Jr.

Gibson, Dunn & Crutcher LLP

One American Square

Wilson Sonsini Goodrich & Rosati, P.C.

1050 Connecticut Avenue, N.W.

Suite 2900

900 South Capital of Texas Highway

Washington, DC 20036-5306

Indianapolis, IN 46282-0200

Las Cimas IV, Fifth Floor

Austin, TX 78746

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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.

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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You should rely only on the information contained in this prospectus or any free writing prospectus filed with the Securities and Exchange Commission (the "SEC"). Neither we nor the underwriters have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the SEC. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus or a free writing prospectus is accurate only as of its date, regardless of its time of delivery, or of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

Through and including _____, 2012 (the 25th day after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: Neither we nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside the United States.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read the entire prospectus, including the consolidated financial statements and the related notes included in this prospectus and the information set forth under the headings Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. Unless the context requires otherwise, the words ExactTarget, we, company, us and our refer to ExactTarget, Inc. and its wholly-owned subsidiaries.

Upon completion of this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, will beneficially own, in the aggregate, approximately % of our outstanding common stock. See Risk Factors Our directors, executive officers and principal stockholders will collectively own approximately % of our outstanding common stock after this offering and will continue to have substantial control over the company.

Our Business

We are a leading global provider of cross-channel, interactive marketing software-as-a-service (SaaS) solutions that empower organizations of all sizes to communicate with their customers through the interactive channels they use most email, mobile, social media and websites. Our solutions provide marketers with a broad and powerful suite of integrated applications to plan, automate, deliver and optimize data-driven interactive marketing campaigns and real-time communications to drive customer engagement, increase sales and improve their return on marketing investment.

Our suite of cross-channel, interactive marketing applications, which include email, mobile, social media and sites, is built on our highly-scalable and flexible multi-tenant SaaS platform. These channel applications are integrated with our campaign management, calendaring, real-time dashboard, integrated reporting, marketing automation and data management tools to provide marketers with a comprehensive, yet easy-to-use, solution to manage, automate and engage in real-time interactive marketing. In addition, our cloud-based platform's robust integration framework enables clients to integrate data from virtually any relevant source and leverage productized integrations with leading third-party CRM, web analytics and e-commerce providers to further enhance the relevance of their interactive communications. We also provide open application programming interfaces (APIs) and developer tools that allow third parties to embed our technology into their solutions and build applications on our platform.

Our global sales organization is focused on adding new clients and expanding relationships with existing clients. We believe our team is the largest sales organization devoted to selling interactive marketing SaaS solutions, with over 290 sales professionals located on four continents. Our field sales team sells into the large business, or enterprise market, while our inside sales team sells to small and medium-sized organizations primarily via telesales. In addition to these new business teams, we have a relationship management sales team that focuses on strengthening client relationships, driving contract renewals and selling additional applications to existing clients. We also extend our sales distribution through relationships with more than 500 marketing service providers that resell our solutions to their customers.

Our direct client base consisted of over 4,700 organizations as of December 31, 2011, ranging from enterprises to small businesses in numerous industries, including retail and e-commerce, media and entertainment, travel and hospitality, financial services and insurance, technology, daily-deal and

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flash-sale and marketing service providers. Among our direct clients are U.S.-based companies such as Ally Financial, Inc., Angie's List, Inc., CareerBuilder, LLC, Groupon, Inc., Microsoft Corporation, Nationwide Mutual Insurance Company, Oakley, Inc., OneAmerica Financial Partners, Inc., One King's Lane, Inc., Papa John's International, Inc., priceline.com Incorporated, The Scotts Miracle-Gro Company, Tommy Hilfiger Group, WellPoint, Inc. and Zappos.com, Inc., and companies headquartered outside the United States such as Abril Group (Brazil), Fairfax Media Limited (Australia), Icelandair Group (Iceland) and Telegraph Media Group Limited (United Kingdom). Several thousand additional organizations utilize our SaaS solutions through their relationships with our marketing service provider clients. Our client base is diverse, and no single client represented more than 5% of our overall revenue for each of the years ended December 31, 2009, 2010 and 2011.

We provide our solutions primarily through annual and multi-year subscriptions based on volume of contracted utilization, level of functionality, number of interactive marketing channels, number of users and level of customer support. We have achieved 44 consecutive quarters of revenue growth and annual dollar-based subscription revenue renewal rates of over 100% in each of the years ended December 31, 2009, 2010 and 2011. For the years ended December 31, 2009, 2010 and 2011, our revenue was \$95.4 million, \$134.3 million and \$207.5 million, representing period-over-period growth of 32%, 41% and 55%, respectively.

Industry Overview

Changes in media consumption, real-time engagement through social media and pervasive mobile connectivity have challenged marketers ability to deliver relevant, meaningful and timely communications. Organizations require a cross-channel view of their customers to drive real-time, relevant engagement and positive return on marketing investment.

Market Opportunity for Interactive Marketing

Consumers are increasingly using email, mobile, social media and websites to access information and interact with brands. Media consumption is shifting from offline channels to interactive channels, driving marketers to increase the percentage of advertising spending on interactive marketing. According to Forrester Research, Inc. (Forrester), U.S. marketers plan to increase spending on interactive channels (defined as display, search, email, mobile and social media) as a percentage of total advertising spending from 16% in 2011 to 26% in 2016, creating a projected \$77 billion market in the United States by 2016, of which email, mobile and social media marketing spending is expected to grow from approximately \$4.8 billion in 2011 to nearly \$15.7 billion by 2016, representing a compound annual growth rate of 27%.⁽¹⁾ We believe the addressable market outside the United States presents an even greater opportunity.

Market Challenges

Organizations often lack the technology, infrastructure and expertise needed to plan, automate, deliver and optimize data-driven interactive marketing campaigns and real-time communications across interactive channels. Marketers considering the adoption or expansion of email and cross-channel, interactive marketing programs face many challenges, including the following:

difficulty in integrating data to create a single, unified view of each consumer;

complexity in effectively engaging consumers across multiple channels;

(1) Forrester, *US Interactive Marketing Forecast, 2011 To 2016*, August 24, 2011, as updated September 7, 2011.

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inability of disparate point solutions to address marketers' emerging needs;

complex security and infrastructure requirements; and

changing deliverability and regulatory standards.

Our Solutions

Our suite of cross-channel, interactive marketing applications enables organizations to plan, automate, deliver and optimize data-driven interactive marketing campaigns and critical, real-time communications to enhance customer engagement and improve their return on marketing investment. Key benefits of our solutions include:

Cross-channel campaign management and engagement capabilities powered by a unified view of each consumer. Our suite includes email, mobile, social media and sites applications that are integrated with campaign management, calendaring, marketing automation and data management tools to provide marketers with the ability to develop a unified view of each consumer and engage in real-time, cross-channel marketing.

Automation of marketing campaigns and real-time communications. Our solutions enable clients to automate processes required to deliver sophisticated, multi-stage marketing campaigns and personalized real-time communications such as order confirmations, e-statements, alerts, abandoned shopping cart reminders and many others.

Highly-scalable and modular SaaS architecture to meet clients' evolving needs. Our SaaS technology infrastructure supports large transaction volumes and allows our clients to store large amounts of data while maintaining high application availability. Clients can easily add new channels and functionality as they expand their interactive marketing programs.

Open and flexible cloud-based platform. Our cloud-based platform's robust integration framework enables clients to integrate data from virtually any relevant source and leverage productized integrations with leading third-party applications. We also provide open APIs and developer tools that allow third parties to embed our technology into their solutions and build applications on our cloud-based platform.

Compliance with complex deliverability and regulatory standards. We solve challenging issues associated with deliverability of our clients' interactive communications and enable our clients to meet legal and regulatory compliance requirements.

Our Competitive Strengths

Our vision is to inspire and enable organizations of all sizes to leverage interactive marketing technologies to achieve phenomenal business results. We have established a leadership position in interactive marketing as evidenced by our global size, scale and growth, which we believe results in several key competitive strengths including:

Leadership driven by vision and focus on innovation. Our vision, focus on innovation and significant investments have fueled our growth and enabled us to deliver interactive marketing solutions that solve marketers' complex challenges. Forrester placed ExactTarget in the Leader category in its *Forrester Wave™ Email Marketing Vendors, Q1 2012*, January 20, 2012. We have extended our leadership position beyond email marketing through the integration of our social media platform, CoTweet, Inc. (CoTweet), the creation of our Social Media Lab and the launch of the Interactive Marketing Hub, our integrated, cross-channel interactive marketing solution.

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Market-leading size and scale and strong business momentum. With over 1,100 employees located on four continents and \$41.4 million of research and development investment in 2011, we enable marketers around the globe to improve returns from their interactive marketing programs. Our substantial investments have led to strong business momentum, resulting in \$207.5 million in revenue for the year ended December 31, 2011, an increase of 55% compared to the year ended December 31, 2010. These substantial investments contributed to an operating loss of \$23.6 million for the year ended December 31, 2011.

Serving clients of all sizes, in many industries and geographies, from a single platform. Our highly-scalable SaaS architecture and modular product offerings enable us to serve large, distributed enterprises with complex interactive marketing requirements, as well as small and medium-sized organizations. Our direct client base consists of over 4,700 organizations, across numerous industries and many geographies. Several thousand additional organizations utilize our SaaS solutions through their relationships with our marketing service provider clients.

Large direct and indirect sales organization with global reach. We believe our team is the largest sales organization devoted to selling interactive marketing SaaS solutions to new and existing clients, with over 290 sales professionals located on four continents. We also extend our global sales distribution through relationships with more than 500 marketing service providers.

Corporate culture committed to client success. Named for our primary brand color, our Orange culture reflects our employees energy, passion and focus on client success. Our culture is widely regarded as one of our greatest assets and is consistently cited as a key differentiator by clients, partners, prospective clients and employees.

Our Growth Strategy

We intend to leverage our vision, our focus on innovation, the breadth of our solutions and our interactive marketing expertise to extend our market leadership and continue to fuel our growth. Key elements of our growth strategy include:

continue to innovate and enhance our leading interactive marketing solutions;

win new clients by expanding direct and indirect sales;

increase revenue from our existing clients;

continue to expand our global presence; and

selectively pursue acquisitions.

Selected Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted here and described in further detail in Risk Factors immediately following this Prospectus Summary. You should carefully read Risk Factors beginning on page 9 for a detailed explanation of these risks before investing in our common stock. Some of these risks include:

we have a recent history of losses, and we may not return to or sustain profitability in the future;

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we have experienced rapid growth in recent periods, and if we fail to manage our domestic and international growth effectively, our financial performance may be adversely affected;

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our operating results and revenue will be adversely affected if we are not able to attract new clients, retain existing clients or sell additional functionality and services to existing clients;

defects or errors in our SaaS solutions or compromises of security measures could harm our reputation, result in significant costs to us and impair our ability to sell our solutions;

we have been dependent on our clients' use of email as a channel for interactive marketing, and any decrease in the use of email for this purpose would harm our business, growth prospects, operating results and financial condition;

the market for cross-channel, interactive marketing SaaS solutions is relatively new and emerging. If the market develops more slowly or differently than we expect, our business, growth prospects and financial condition would be adversely affected;

evolving domestic and international data privacy regulations may restrict our clients' ability to solicit, collect, process, disclose and use personal information or may increase the costs of doing so, which could harm our business;

failures of the third-party hardware, software and infrastructure on which we rely, including third-party data center hosting facilities, could impair the delivery of our solutions and adversely affect our business;

the markets in which we participate are highly competitive, and pricing pressure or other competitive dynamics, which could include clients developing their own solutions, could adversely affect our business and operating results;

we rely on our management team and other key employees, and the loss of one or more key employees could harm our business; and

our directors, executive officers and principal stockholders will continue to have substantial control over the company after this offering.

Corporate Information

We began our operations in December 2000 as ExactTarget, LLC, an Indiana limited liability company. In July 2004, ExactTarget, LLC merged into ExactTarget, Inc., a Delaware corporation. Our principal executive offices are located at 20 North Meridian Street, Suite 200, Indianapolis, Indiana 46204. Our main telephone number is (317) 423-3928, and our website address is www.exacttarget.com. Information contained on our website is not a part of, and is not incorporated into, this prospectus.

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The Offering

Common stock offered by us	shares
Over-allotment option	shares
Common stock to be outstanding after this offering	shares, or shares if the underwriters exercise their option to purchase additional shares in full.

Use of proceeds We intend to use the net proceeds from this offering primarily for general corporate purposes, such as expanding our sales and marketing teams, international operations, product development efforts and general and administrative functions, as well as for working capital. We may also use the net proceeds to repay our term loan and revolving line of credit or for acquisitions. See Use of Proceeds.

Exchange listing Our common stock has been approved for listing on the New York Stock Exchange (NYSE) under the symbol ET.

Concurrent with or prior to the effectiveness of the registration statement of which this prospectus forms a part, the number of authorized shares of our common stock will be increased to 74,000,000 shares, the par value per share of our common stock will be decreased to \$0.0005, and each share of common stock then outstanding will be split into two shares by way of a forward stock split. As a result of the stock split, (i) the conversion price of each series of our preferred stock will be appropriately decreased so that two shares of common stock are issuable upon conversion of each share of preferred stock of such series, and (ii) appropriate adjustments will be made to the exercise prices of, and number of shares subject to, all outstanding stock options. Unless we specifically state otherwise, the information in this prospectus reflects the increase in the authorized number of shares of our common stock, the decrease in par value per share of our common stock, the two-for-one forward stock split of our outstanding common stock and the adjustments to the conversion prices of our preferred stock and the exercise prices of, and number of shares subject to, our outstanding stock options.

The number of shares of our common stock to be outstanding after this offering is based on 55,976,784 shares of common stock outstanding as of December 31, 2011 and excludes:

11,323,492 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2011 granted under our 2008 equity incentive plan and 2004 stock option plan, having a weighted average exercise price of \$5.23 per share; and

103,244 shares of unvested restricted common stock outstanding as of December 31, 2011.

Unless otherwise stated, information in this prospectus reflects and assumes the following:

the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the completion of this offering;

the automatic conversion of all of our outstanding preferred stock as of December 31, 2011 into an aggregate of 46,934,438 shares of our common stock immediately prior to the completion of this offering; and

no exercise of the underwriters' option to purchase additional shares.

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The following tables summarize the consolidated financial data for our business. You should read this summary consolidated financial data in conjunction with Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes, all included elsewhere in this prospectus.

We derived the summary consolidated statements of operations data for the years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2011 from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results.

	Year Ended December 31,		
	2009	2010	2011
(in thousands, except share and per share data)			
Consolidated Statements of Operations Data:			
Revenue	\$ 95,443	\$ 134,267	\$ 207,493
Cost of revenue(1)	30,772	43,894	70,195
Gross profit	64,671	90,373	137,298
Operating expenses:			
Sales and marketing(1)	39,276	63,978	93,559
Research and development(1)	14,845	27,400	41,390
General and administrative(1)	13,397	17,159	25,985
Total operating expenses	67,518	108,537	160,934
Operating loss	(2,847)	(18,164)	(23,636)
Other income (expense), net	75	(53)	(1,001)
Loss before taxes	(2,772)	(18,217)	(24,637)
Income tax expense (benefit)	(777)	(6,127)	10,798
Net loss	(1,995)	(12,090)	(35,435)
Adjustment for redemption of preferred stock	(58,601)		
Preferred stock dividend	(490)		
Net loss available to common stockholders	\$ (61,086)	\$ (12,090)	\$ (35,435)
Net loss per common share:			
Basic	\$ (5.86)	\$ (1.52)	\$ (4.05)
Diluted	\$ (5.86)	\$ (1.52)	\$ (4.05)
Weighted average number of common shares outstanding basic	10,417,392	7,978,304	8,750,540
Weighted average number of common shares outstanding diluted	10,417,392	7,978,304	8,750,540
Pro forma (unaudited)(2):			
Net loss per common share:			
Basic		\$ (0.26)	\$ (0.69)
Diluted		\$ (0.26)	\$ (0.69)
Weighted average number of common shares outstanding basic		46,893,638	51,279,056
Weighted average number of common shares outstanding diluted		46,893,638	51,279,056
Other Financial Data:			
Adjusted EBITDA(3)	\$ 7,723	\$ (2,769)	\$ (59)

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- (1) Cost of revenue and operating expenses include the following amounts related to stock-based compensation:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Cost of revenue	\$ 416	\$ 664	\$ 1,055
Sales and marketing	813	1,413	2,265
Research and development	528	1,147	1,511
General and administrative	1,589	1,201	2,123
Total stock-based compensation	\$ 3,346	\$ 4,425	\$ 6,954

- (2) See note 1 to the consolidated financial statements included elsewhere in this prospectus for a description of how pro forma basic and diluted net loss per share available to common stockholders is computed.
- (3) We provide Adjusted EBITDA, which is a non-GAAP financial measure, because we believe this measure provides important supplemental information regarding our operating performance and is often used by investors and analysts in their evaluation of companies such as ours. In addition, we use Adjusted EBITDA as a measurement of our operating performance because it assists us in comparing our operating performance on a consistent basis by removing the impact of certain non-cash and non-operating items. We calculate Adjusted EBITDA as net income (loss) before (1) other (income) expense, which includes interest income, interest expense and other income and expense, (2) income tax expense (benefit), (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation. This non-GAAP financial measure is used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. Adjusted EBITDA reflects an additional way of viewing aspects of our operations that we believe, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provides a more complete understanding of factors and trends affecting our business. The following table provides a reconciliation from net loss to Adjusted EBITDA:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Net loss	\$ (1,995)	\$ (12,090)	\$ (35,435)
Other (income) expense, net	(75)	53	1,001
Income tax expense (benefit)	(777)	(6,127)	10,798
Depreciation and amortization of property and equipment	7,046	10,173	15,470
Amortization of intangible assets	178	797	1,153
Stock-based compensation	3,346	4,425	6,954
Adjusted EBITDA	\$ 7,723	\$ (2,769)	\$ (59)

	As of December 31, 2011		
	Actual	Pro Forma(4)	Pro Forma As Adjusted(5)
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 60,705	\$ 60,705	\$
Working capital	38,195	38,195	
Total assets	193,284	193,284	
Total liabilities	95,543	95,543	
Redeemable convertible preferred stock	63,000		
Total stockholders' equity	34,741	97,741	

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- (4) On a pro forma basis to give effect to the automatic conversion of all outstanding shares of our preferred stock into 46,934,438 shares of common stock.
- (5) On a pro forma as adjusted basis to give effect to (1) the issuance and sale by us of _____ shares of common stock in this offering, and the receipt of the net proceeds from our sale of these shares at an assumed initial public offering price of \$ _____ per share, the midpoint of the range listed on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us and (2) the amendment and restatement of our certificate of incorporation in connection with this offering.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this prospectus, including the financial statements and related notes, and any related free writing prospectus before deciding whether to purchase shares of our common stock. If any of the following risks are realized, in whole or in part, our business, operating results, reputation and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

We have a recent history of losses, and we may not return to or sustain profitability in the future.

We incurred net losses of \$2.0 million for the year ended December 31, 2009, \$12.1 million for the year ended December 31, 2010 and \$35.4 million for the year ended December 31, 2011. We had an accumulated deficit of \$146.1 million as of December 31, 2011. In recent years, we have made substantial investments in research and development, infrastructure, growing our sales team, international expansion and acquisitions to support anticipated future revenue growth. We expect to continue to make significant investments in the development and expansion of our business, which may make it difficult for us to return to profitability. In addition, as a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenue relative to our costs to achieve profitability in the future. While our revenue has grown in recent periods, such revenue growth may not be indicative of our future performance, and this growth may not be sustainable. We may not be able to achieve sufficient revenue to return to profitability in future periods, and our revenue could decline or grow more slowly than we expect. We may incur significant losses in the future for a number of reasons, including due to the risks described in this prospectus.

We have experienced rapid growth in recent periods, and if we fail to manage our domestic and international growth effectively, our financial performance may be adversely affected.

We have expanded our overall business, including our revenue, team of employees, international operations and client base, in recent periods. Our revenue increased from \$72.3 million for the year ended December 31, 2008 to \$207.5 million for the year ended December 31, 2011. We increased our total number of full-time employees from 379 as of December 31, 2008 to 1,133 as of December 31, 2011. Since August 2009, we have acquired a social media marketing platform and three international reseller partners. Our historical growth rate is not necessarily indicative of the growth that we will achieve in the future. Our recent growth and anticipated future growth has placed and will continue to place strain on our team, infrastructure and operations. Our success will depend on our ability to manage this growth effectively. We intend to further expand our overall business, client base, number of employees and operations as we prepare to become a public company and continue to expand our operations internationally. Managing a large, diverse and geographically dispersed client base and workforce will require substantial management effort and significant additional investment in our team, technology and infrastructure. In order to support and sustain our growth, we will have to continue to improve our technology and our operational, financial and management controls and reporting procedures, and all of these investments will increase our costs. Furthermore, we have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If our assumptions regarding these uncertainties are incorrect or change as a result of changes in the market in which we operate, if we do not address these risks successfully or if we fail to successfully plan for and manage our growth, our operating and financial results could differ materially from our expectations and our business and growth prospects could be adversely affected.

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Our operating results and revenue will be adversely affected if we are not able to attract new clients, retain existing clients or sell additional functionality and services to existing clients.

To continue to grow our business, we must attract new clients and retain and sell additional products and services to existing clients. Many of our subscription agreements do not automatically renew at the end of their terms and some have termination clauses that could result in early termination. As the interactive marketing industry matures and as competitors introduce lower cost or differentiated competitive products or services, our ability to effectively compete with respect to pricing, technology, functionality, services and support could be impaired. In such an event, we may be unable to attract new clients or renew our agreements with existing clients on favorable or comparable terms to prior periods. In addition, we may not be able to accurately predict new subscriptions or subscription renewal rates and the impact these rates may have on our future revenue and operating results. These events and developments could have a material adverse effect on our revenue, gross margin and other operating results.

Defects or errors in our SaaS solutions could harm our reputation, result in significant costs to us and impair our ability to sell our solutions.

Our suite of cross-channel, interactive marketing SaaS solutions is inherently complex and may contain defects or errors, which may cause disruptions in availability or other performance problems that could include prolonged down-time. Any such errors, defects, disruptions in service or other performance problems, whether in connection with day-to-day operations, bug fixes, upgrades or otherwise, could be costly for us to remedy, damage our clients' businesses and harm our reputation. In addition, if we have any such errors, defects, disruptions in service or other performance problems, our clients could terminate their agreements, elect not to renew their subscriptions, delay or withhold payment, or make claims against us. Any of these actions could result in lost business, increased insurance costs, difficulty in collecting our accounts receivable and costly litigation. Such errors, defects or other problems could also result in reduced sales or a loss of or delay in the market acceptance of our solutions.

We have been dependent on our clients' use of email as a channel for interactive marketing, and any decrease in the use of email for this purpose would harm our business, growth prospects, operating results and financial condition.

Historically, our clients have primarily used our SaaS solutions for email-based interactive marketing to consumers who have given our clients permission to send them emails. We expect that email will continue to be the primary channel used by our clients for the foreseeable future. Should our clients lose confidence in the value or effectiveness of email marketing, or if other interactive channels are perceived to be more effective than email marketing, the demand for our solutions may decline. A number of factors could adversely affect our clients' assessment of the value or effectiveness of email marketing, including continual growth in the number of emails consumers receive on a daily basis, the inability of Internet service providers (ISPs) to prevent unsolicited bulk email, or spam, from overwhelming consumers' inboxes, security concerns regarding viruses, worms or similar problems affecting Internet and email utilization and increased governmental regulation or restrictive policies adopted by ISPs that make it more difficult or costly to utilize email for marketing communications.

The market for cross-channel, interactive marketing SaaS solutions is relatively new and emerging. If the market develops more slowly or differently than we expect, our business, growth prospects and financial condition would be adversely affected.

The market for cross-channel, interactive marketing SaaS solutions, such as ours, is relatively new and may not achieve or sustain high levels of demand and market acceptance. While email has been used successfully for interactive marketing for several years, marketing via new interactive marketing channels such as mobile and social media is not as well established, and revenue from

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email represents a substantial majority of our total revenue. The future growth of our business depends both on the acceptance and expansion of emerging interactive marketing channels, as well as the continued use and growth of existing interactive marketing channels, including email. Even if interactive marketing through these channels becomes widely adopted, our suite of cross-channel, interactive marketing SaaS solutions may not continue to be utilized by our existing clients or we may not acquire new clients. Organizations may not make significant investments in cross-channel, interactive marketing solutions and may not purchase SaaS solutions to address their interactive marketing needs. If cross-channel, interactive marketing SaaS solutions are not widely adopted, or the market for such SaaS solutions does not develop as we expect, our business, growth prospects and financial condition would be adversely affected.

Evolving domestic and international data privacy regulations may restrict our clients' ability to solicit, collect, process, disclose and use personal information or may increase the costs of doing so, which could harm our business.

Federal, state and foreign governments and supervising authorities have enacted, and may in the future enact, laws and regulations concerning the solicitation, collection, processing, disclosure or use of consumers' personal information. Evolving and changing regulations regarding personal data and personal information, both within the European Union and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business. Such laws and regulations require or may require companies to implement privacy and security policies, permit consumers to access, correct or delete personal information stored or maintained by such companies, inform individuals of security incidents that affect their personal information, and, in some cases, obtain consent to use personal information for certain purposes. Other proposed legislation could, if enacted, impose additional requirements and prohibit the use of certain technologies, such as those that track individuals' activities on web pages or record when individuals click on a link contained in an email message. Such laws and regulations could restrict our clients' ability to collect and use email addresses, web browsing data and personal information, which may reduce demand for our solutions. Changing industry standards and industry self-regulation regarding the collection, use and disclosure of certain data may have similar effects. Existing and potential future privacy and data protection laws and increasing sensitivity of consumers to unauthorized disclosures and use of personal information may also negatively affect the public's perception of interactive marketing, including marketing practices of our clients. If our solutions are perceived to cause, or are otherwise unfavorably associated with, invasions of privacy, whether or not illegal, we or our clients may be subject to public criticism. Public concerns regarding data collection, privacy and security may also cause some consumers to be less likely to visit our clients' websites or otherwise interact with our clients, which could limit the demand for our solutions and inhibit the growth of our business.

Any failure to comply with applicable privacy and data protection laws, regulations, policies and standards or any inability to adequately address privacy concerns associated with our solutions, even if unfounded, could subject us to liability, damage our reputation, impair our sales and harm our business. Furthermore, the costs to our clients of compliance with, and other burdens imposed by, such laws, regulations, policies and standards may limit adoption of and demand for our solutions.

If our security measures are compromised or unauthorized access to client data is otherwise obtained, our solutions may be perceived as not being secure, clients may curtail or cease their use of our solutions, our reputation may be harmed and we may incur significant liabilities.

Our operations involve the storage and transmission of client and consumer data, and security incidents could result in unauthorized access to, loss of or unauthorized disclosure of this information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales and harm our business. Cyberattacks and other malicious Internet-based activity continue to increase, and SaaS-based platform providers of interactive

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marketing services have been targeted. Our security measures and the contractual restraints we maintain to prevent our clients from loading sensitive health, personal and financial information into our SaaS platform may not be sufficient to prevent the storage of such information on our systems or to prevent our systems from being compromised. We do not regularly monitor or review the content that our clients upload and store and, therefore, do not control the substance of the content within our hosted environment. If clients use our suite of cross-channel, interactive marketing SaaS solutions for the transmission or storage of personally identifiable information and our security measures are compromised as a result of third-party action, employee or client error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liability. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our client base and our brand becomes more widely known and recognized when we are a public company, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to our clients' data. A failure or inability to meet clients' expectations with respect to security and confidentiality could seriously damage our reputation and affect our ability to retain clients and attract new business.

Many governments have enacted laws requiring companies to notify individuals of data security incidents involving certain types of personal data. In addition, some of our clients contractually require notification of any data security compromise. Security compromises experienced by our competitors, by our clients or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode client confidence in the effectiveness of our security measures, negatively impact our ability to attract new clients, cause existing clients to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to scale our infrastructure quickly enough to meet our clients' growing needs and, even if we can, our operations may be disrupted or our operating results could be harmed.

As usage of our suite of cross-channel, interactive marketing SaaS solutions grows and as clients use our solutions for more advanced interactive marketing programs, we will need to devote additional resources to improving our application architecture and our infrastructure to maintain our solutions' performance. Any failure of or delays in our systems could cause service interruptions or impaired system performance. If sustained or repeated, these performance issues could reduce the attractiveness of our solutions to clients, result in decreased sales to new clients and lower renewal rates by existing clients, which could hurt our revenue growth and our reputation. We also may need to expand our hosting operations at a more rapid pace than we have in the past. This would involve spending substantial amounts to purchase or lease data center capacity and equipment, upgrade our technology and infrastructure and introduce new SaaS solutions. Similarly, our international expansion efforts could require us to use data centers located outside the United States. We may not be able to scale our existing systems in a manner that is satisfactory to our existing or prospective clients. In

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addition, any such expansion will require management time and support, could be expensive and complex, could result in inefficiencies, unsuccessful data transfers or operational failures, could reduce our margins and could adversely impact our financial results. Moreover, there are inherent risks associated with upgrading, improving and expanding our information technology systems. We cannot be sure that the improvements to our infrastructure and systems will be fully or effectively implemented on a timely basis, if at all.

Failures of the third-party hardware, software and infrastructure on which we rely, including third-party data center hosting facilities, could impair the delivery of our solutions and adversely affect our business.

We rely on hardware and infrastructure, which is purchased or leased, and software licensed from third parties, to offer our suite of cross-channel, interactive marketing SaaS solutions and related professional services. For example, we rely on bandwidth providers, ISPs, mobile providers and social networks to deliver messages to consumers on behalf of our clients. Any errors or defects in third-party hardware, software or infrastructure could result in errors, interruptions or a failure of our SaaS solutions. Furthermore, this hardware, software and infrastructure may not continue to be available on commercially reasonable terms, or at all. The loss of the right to use any of this hardware, software or infrastructure could limit access to our SaaS solutions.

We currently serve our clients from two third-party data center hosting facilities located in Indianapolis, Indiana and one in Las Vegas, Nevada. Although our network infrastructure is generally redundant in each of our data centers, our data storage and operational capabilities are not fully redundant across data centers. The owners and operators of these facilities do not guarantee that our clients' access to our solutions will be uninterrupted, error-free or secure. We do not control the operation of these facilities, and such facilities are vulnerable to damage or interruption from a tornado, earthquake, fire, cyber-attack, terrorist attack, power loss, telecommunications failure or similar catastrophic events. They also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in the delivery of our solutions. If for any reason our arrangement with one or more of the third-party data centers we use is terminated, we could incur additional expense in arranging for new facilities and support. In addition, the failure of the data centers to meet our capacity requirements could result in interruptions in the availability of our SaaS solutions or impair the functionality of our SaaS solutions, which could adversely affect our business.

Errors, defects, disruptions or other performance problems with the delivery of our suite of cross-channel, interactive marketing SaaS solutions may reduce our revenue, harm our reputation and brand and adversely affect our contract renewals and our ability to attract new clients. In addition, some of our client agreements require us to issue credits for downtime in excess of certain thresholds, and in some instances give our clients the ability to terminate the agreements in the event of significant amounts of downtime. Our business, growth prospects and operating results will also be harmed if our clients and potential clients are not confident that our solutions are reliable.

As we add data centers and increase capacity in data centers to accommodate increased demand, our costs and expenses associated with these efforts may adversely affect our operating results, liquidity and financial condition.

The markets in which we participate are highly competitive, and pricing pressure or other competitive dynamics, which could include clients developing their own solutions, could adversely affect our business and operating results.

The markets for interactive marketing solutions are fragmented, highly competitive and rapidly changing. With the introduction of new technologies and potential new entrants into these markets, we

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expect competition to intensify in the future, which could harm our ability to increase sales and maintain our margins. We provide interactive marketing solutions to a broad array of clients, ranging from enterprises to small businesses. We have a number of competitors, including Aprimo, Inc. (which was acquired by Teradata Corporation in 2011), CheetahMail Inc. (a subsidiary of Experian Group Limited), e-Dialog Inc. (a subsidiary of eBay, Inc.), Eloqua Limited, Epsilon Data Management, LLC (a subsidiary of Alliance Data Systems Corporation), Responsys, Inc., Silverpop Systems Inc., StrongMail Systems, Inc., Unica Corporation (which was acquired by International Business Machines Corporation in 2010) and Yesmail (a division of infoGROUP Inc.). To a lesser degree, we compete with a number of email marketing providers focused on the small business market. We also face competition from social media marketing providers, such as Buddy Media, Inc. and Radian6 Technologies, Inc. (which was acquired by salesforce.com, inc. in 2011), and from mobile marketing service providers, as well as from in-house solutions that our current and prospective clients may develop.

We may also face competition from new companies entering our markets, which may include large established businesses, such as Adobe Systems Incorporated, Amazon.com, Inc., Google Inc., Oracle Corporation or salesforce.com, inc., each of which currently offers, or may in the future offer, interactive marketing or related applications such as applications for customer relationship management, analysis of Internet data and marketing automation. If these companies decide to develop, market or resell competitive interactive marketing products or services, acquire one of our competitors or form a strategic alliance with one of our competitors, our ability to compete effectively could be compromised, and our operating results could be harmed. Furthermore, we believe that our industry may experience further consolidation, which could lead to increased competition and result in pricing pressure or loss of market share, either of which could have a material adverse effect on our business, limit our growth prospects or reduce our revenue.

Our current and potential competitors may have significantly more financial, technical, marketing and other resources than we have, may be able to devote greater resources to the development, promotion, sale and support of their products and services than we can, may have more extensive customer bases and broader customer relationships than we have and may have longer operating histories and greater name recognition than we have. In some cases, these companies may choose to offer interactive marketing applications at little or no additional cost to the customer by bundling them with their existing applications. If we are unable to compete with such companies, the demand for our suite of cross-channel, interactive marketing SaaS solutions and related professional services could decline and adversely affect our business, operating results and financial condition.

If we fail to effectively expand our sales and marketing capabilities and teams, we may not be able to increase our client base and achieve broader market acceptance of our SaaS solutions.

Increasing our client base and achieving broader market acceptance of our suite of cross-channel, interactive marketing SaaS solutions will depend on our ability to expand our sales and marketing teams and their capabilities to obtain new clients and sell additional products and services to existing clients. We believe there is significant competition for direct sales professionals with the skills and technical knowledge that we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future. Our ability to achieve significant future revenue growth will depend on our success in recruiting, training and retaining sufficient numbers of direct sales professionals. New hires require significant training and time before they become fully productive, and may not become as productive as quickly as we anticipate. Our growth prospects will be harmed if our efforts to expand, train and retain our direct sales team do not generate a corresponding significant increase in revenue.

In addition to our direct sales team, we also extend our global sales distribution through relationships with more than 500 marketing service providers. These providers do not have exclusive relationships with us, and we cannot be certain that these partners will prioritize or provide adequate resources for selling our solutions. Establishing and retaining qualified partners and training them in

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our solutions requires significant time and resources. If we are unable to devote sufficient time and resources to establish and train these partners, or if we are unable to maintain successful relationships with them, our business could be adversely affected.

Because our long-term growth strategy involves further expansion of our sales to clients outside the United States, our business will be susceptible to risks associated with international operations.

A key component of our growth strategy involves the further expansion of our operations and client base internationally. In recent years, we completed acquisitions of resellers located in the United Kingdom, Australia and Brazil, and have opened an office in Germany. As we continue to expand the sales of our suite of cross-channel, interactive marketing SaaS solutions to clients outside the United States, our business will be increasingly susceptible to risks associated with international operations. Among the risks and challenges we believe are most likely to affect us with respect to international expansion are:

difficulties and expenses associated with the continued adaptation of our suite of cross-channel, interactive marketing SaaS solutions for international markets, including translation into foreign languages;

difficulties in staffing and managing foreign operations and the increased travel, real estate, infrastructure and legal compliance costs associated with international operations;

burdens of complying with applicable laws and regulations, including regional data privacy laws and anti-bribery laws such as the Foreign Corrupt Practices Act;

in some countries, a less-developed set of rules and infrastructure for online and mobile communications;

our ability to secure local communications and data center services and to successfully deliver communications to international ISPs and mobile carriers;

adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash;

currency exchange rate fluctuations;

difficulties in enforcing contracts;

difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;

trade restrictions;

laws and business practices favoring local competitors or general preferences for local vendors;

lesser degrees of intellectual property protection;

political instability or terrorist activities;

legal systems subject to undue influence or corruption; and

business cultures in which improper sales practices may be prevalent.

We have a limited operating history outside the United States, and our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business. In addition, we have limited experience in marketing, selling and supporting our suite of cross-channel, interactive marketing SaaS solutions and services abroad, which increases the risk that our future expansion efforts will not be successful. If we invest substantial time and resources to expand our

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international operations and are unable to do so successfully and in a timely manner, our business, operating results and reputation will be adversely affected. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish operations in other countries will result in adequate revenue and profitability levels.

Our business could be adversely affected if our clients are not satisfied with our SaaS solutions, our implementation and integration of our solutions or our professional services.

Our business depends on our ability to satisfy our clients and meet their business needs. If a client is unsatisfied with our suite of cross-channel, interactive marketing SaaS solutions and professional services, we could lose the client, we could incur additional costs to remedy the situation, or the profitability of our relationship with that client may be impaired. In addition, negative publicity resulting from issues related to our client relationships, regardless of accuracy, may damage our business by adversely affecting our ability to attract new clients and maintain and expand our relationships with existing clients.

In addition, supporting enterprise clients could require us to devote significant development services and support personnel, which could strain our team and infrastructure, and reduce our profit margins. If we are unable to address the needs of these clients in a timely fashion or further develop and enhance our solutions, these clients may seek to terminate their relationships with us, not renew their subscriptions, renew their subscriptions on less favorable terms or not purchase additional features or solutions. If any of these were to occur, our revenue may decline, we may not realize future growth and our operating results may be materially and adversely affected.

If we fail to respond to evolving technological requirements or to introduce adequate enhancements and new features, our SaaS solutions could become obsolete or less competitive.

To remain a leading global provider of cross-channel, interactive marketing SaaS solutions, we must continue to invest in research and development of new solutions and enhancements to our existing solutions. The process of developing new technologies, products and services is complex and expensive. Our industry is characterized by rapidly changing technologies, standards, regulations and client requirements and frequent product enhancements and introductions. The introduction of new solutions by our competitors, the market acceptance of competitive solutions based on new or alternative technologies or the emergence of new industry standards could render our solutions obsolete or less effective. In addition, other means of interactive marketing may be developed or adopted in the future, and our solutions may not be compatible with these new marketing channels. The success of any enhancement or new solution depends on several factors, including timely completion, adequate quality testing, introduction and market acceptance. Any new solution or feature that we develop or acquire may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the broad market acceptance necessary to generate significant revenue. If we are unable to anticipate client requirements, successfully develop or acquire new solutions or features in a timely manner or enhance our existing solutions to meet our clients' requirements, our business and operating results may be adversely affected.

We may experience quarterly fluctuations in our operating results due to a number of factors, which makes our future results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly operating results have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our past results may not be

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indicative of our future performance. If our revenue or operating results fall below the expectations of investors or securities analysts, or below any guidance we may provide, the price of our common stock could decline.

In addition to the other risks described in this prospectus, factors that may affect our quarterly operating results include the following:

changes in spending on interactive marketing technologies by our current or prospective clients;

the volume of utilization above contracted levels for a particular quarter and the amount of any associated additional revenue earned;

client renewal rates, and the pricing and volume commitments at which agreements are renewed;

clients delaying purchasing decisions in anticipation of new products or product enhancements by us or our competitors;

budgeting cycles of our clients;

changes in the competitive dynamics of our industry, including consolidation among competitors or clients;

long or delayed implementation times for new clients;

the amount and timing of operating expenses, particularly research and development and sales and marketing expenses (including commissions and bonuses associated with performance), unforeseen product execution costs, employee benefit expenses and expenses related to the expansion of our business, operations and infrastructure;

changes in the levels of our capital expenditures;

the amount and timing of costs associated with recruiting, training and integrating new employees; and

failure to successfully manage any acquisitions or the incurrence of write-downs, impairment charges or unforeseen liabilities in connection with acquisitions.

We may not be able to accurately forecast the amount and mix of future subscriptions, revenue and expenses and, as a result, our operating results may fall below our estimates or the expectations of public market analysts and investors.

Because we recognize subscription revenue from our clients over the terms of their agreements and most of the costs associated with such agreements are incurred up front, rapid increases in new clients and expanding sales to existing clients may cause an adverse impact on our short-term operating income and cash flows and may cause our operating results to be difficult to predict.

The majority of our subscription revenue in a quarter is derived from client agreements entered into in previous quarters. Significant selling activity in a quarter may result in little incremental recognized revenue and client cash receipts during that quarter, but results in the recognition

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of related commissions and sales and company bonuses due to immediate expense recognition. In addition, it takes several months to ramp up a professional services consultant to full productivity and, as a result, we generally must increase our professional services capacity ahead of the recognition of associated professional services revenue, which can result in lower margins in a period of significant hiring. The timing of revenue and expense recognition and associated cash flows may result in an adverse impact on our short-term operating income and cash flows and may also make it more difficult to accurately predict current quarter operating results. The resulting variations in our operating income, earnings per

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share, cash flows from operating activities and other financial metrics and non-financial metrics could harm the price of our common stock if they do not meet the expectations of the public market, securities analysts or investors.

Shifts over time in the mix of sizes or types of organizations that purchase our solutions or changes in the types of solutions purchased by our clients could negatively affect our operating results.

Our strategy is to sell our suite of cross-channel, interactive marketing SaaS solutions to organizations of all sizes. While we serve all of our clients from our single SaaS platform, our profit margins can vary depending on numerous factors, including the number of clients using our SaaS solutions, the complexity and frequency of their use, the level of utilization, the volume of messages sent, the amount of stored data and the level of professional services and support required by a client. For example, because our professional services offerings typically have a higher cost of revenue than subscriptions to our SaaS solutions, any increase in sales of professional services would likely have an adverse effect on our overall gross profit margin and operating results. Enterprise organizations generally require more professional services compared to small businesses and medium-sized companies and, as a result, the overall margin for our enterprise engagements may be lower. We supplement our internal professional services team with third parties to provide professional services, and our goal is to expand these relationships over time. If we are unable to expand our network of third-party service providers, we will likely have to expand our internal team to meet the needs of our clients, which could increase our operating costs and result in lower gross margins. If the mix of organizations that purchase our solutions changes, or the mix of solution components purchased by our clients changes, our profit margins could decrease and our operating results could be adversely affected.

As the number of enterprise clients that we serve increases, we may encounter implementation challenges, and we may have to delay revenue recognition for some complex engagements, which would harm our business and operating results.

We may face unexpected challenges with some enterprise clients or more complicated implementations of our suite of cross-channel, interactive marketing SaaS solutions with such clients. It may be difficult or expensive to implement our SaaS solutions if a client has unexpected data, hardware or software technology challenges, or complex or unanticipated business requirements. In addition, prospective enterprise clients may require acceptance testing related to implementation of our SaaS solutions. Implementation delays may also require us to delay revenue recognition until the technical or implementation requirements have been met. Any difficulties or delays in the initial implementation could cause clients to delay or forego future purchases of our solutions, in which case our business, operating results and financial condition would be adversely affected.

We rely on our management team and other key employees, and the loss of one or more key employees could harm our business.

Our success and future growth depend upon the continued services of our management team and other key employees, including in the areas of research and development, marketing, sales, services and general and administrative functions. From time to time, there may be changes in our management team resulting from the hiring or departure of executives, which could disrupt our business. We also are dependent on the continued service of our existing development professionals because of the complexity of our solutions. We may terminate any executive officer's employment at any time, with or without cause, and any executive officer may resign at any time, with or without cause. We do not maintain key man life insurance on any of our employees. The loss of one or more of our key employees could harm our business.

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Because competition for key employees is intense, we may not be able to attract and retain the highly-skilled employees we need to support our operations and future growth.

Competition for executive officers, software developers and other key employees in our industry is intense. In particular, we compete with many other companies for software developers with high levels of experience in designing, developing and managing software, as well as for skilled sales and operations professionals, and we may not be successful in attracting and retaining the professionals we need. Job candidates and existing employees often consider the actual and potential value of the equity awards they receive as part of their overall compensation. Thus, if the perceived value or future value of our stock declines, our ability to attract and retain highly skilled employees may be adversely affected. If we fail to attract new employees or fail to retain and motivate our current employees, our business and future growth prospects could be harmed.

We derive a significant portion of our revenue from clients in the retail and e-commerce, media and entertainment, travel and hospitality, financial services and insurance, technology, daily-deal and flash-sale industries, and any downturn in these industries could harm our business.

A significant portion of our revenue is derived from clients in the retail and e-commerce, media and entertainment, travel and hospitality, financial services and insurance, technology, daily-deal and flash-sale industries. Any downturn in these industries may cause our clients to reduce their spending on interactive marketing solutions, delay or cancel interactive marketing projects or seek to terminate or renegotiate their contracts with us. Also, the increased pace of consolidation in any of these industries may result in reduced overall spending on our solutions. In particular, if our clients are acquired by entities that are not our clients, that use fewer of our solutions or that choose to discontinue, reduce or change the terms of their use of our solutions, our business and operating results could be materially and adversely affected.

Our sales cycle can be unpredictable, time-consuming and expensive, which could harm our business and operating results.

Our sales efforts involve educating prospective clients and our existing clients about the use, technical capabilities and benefits of our solutions. Some clients, particularly in the enterprise market, undertake a prolonged solution-evaluation process, which frequently involves not only our solutions but also those of our competitors. As we continue to pursue enterprise clients, we may face greater costs, longer sales cycles and less predictability in completing such sales. We may spend substantial time, effort and money on our sales efforts without any assurance that our efforts will produce any sales. It is also difficult to predict the level and timing of sales that come from our indirect sales channel of marketing service providers since these resellers do not exclusively sell our solutions. Events affecting our clients' businesses may occur during the sales cycle that could affect the size or timing of a purchase, contributing to more unpredictability in our business and operating results.

Uncertain or weakened global economic conditions may adversely affect our industry, business and results of operations.

Our overall performance depends on domestic and worldwide economic conditions, which may remain challenging for the foreseeable future. Financial developments seemingly unrelated to us or to our industry may adversely affect us. The U.S. economy and other key international economies have been impacted by threatened sovereign defaults and ratings downgrades, falling demand for a variety of goods and services, restricted credit, threats to major multinational companies, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty. These conditions affect the rate of information technology spending and could adversely affect our clients' ability or willingness to purchase our suite of cross-channel, interactive marketing SaaS solutions and services, delay prospective clients' purchasing decisions, reduce the

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value or duration of their subscriptions or affect renewal rates, any of which could adversely affect our operating results. We cannot predict the timing, strength or duration of the economic recovery or any subsequent economic slowdown worldwide, in the United States, or in our industry.

Any violation of our policies or misuse of our SaaS solutions by our clients could damage our reputation and subject us to liability.

Our clients could misuse our SaaS solutions by, among other things, transmitting negative messages or website links to harmful applications, sending unsolicited commercial email, reproducing and distributing copyrighted material without permission, reporting inaccurate or fraudulent data and engaging in illegal activity. Any such use of our suite of SaaS solutions could damage our reputation and could subject us to claims for damages, copyright or trademark infringement, defamation, negligence or fraud. Moreover, our clients may use our SaaS solutions to promote their products and services in violation of federal, state and foreign laws. We rely on contractual representations made to us by our clients that their use of our SaaS solutions will comply with our policies and applicable law, including, without limitation, our Anti-Spam Policy. Although we retain the right to review customer lists and emails to verify that clients are abiding by our Anti-Spam Policy, our clients are ultimately responsible for compliance with our policies, and we do not audit our clients to confirm compliance with our policies.

We cannot predict whether the use of our SaaS solutions would expose us to liability under applicable laws or subject us to other regulatory action. Even if claims asserted against us do not result in liability, we may incur substantial costs in investigating and defending against such claims, or our reputation may be damaged. If we are found liable in connection with our clients' activities, we could be required to pay fines or penalties, redesign our SaaS solutions or otherwise expend resources to remedy any damages caused by such actions and to avoid future liability.

Federal, state and foreign laws regulating email and text messaging marketing practices impose certain obligations on the senders of commercial emails and text messages, which could reduce the effectiveness of our solutions or increase our operating expenses to the extent these laws subject us to financial penalties.

The Federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the CAN-SPAM Act) regulates commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. Among other things, the CAN-SPAM Act obligates each sender of commercial emails to allow recipients to opt-out of receiving future emails from the sender. In addition, the CAN-SPAM Act, regulations implemented by the Federal Communications Commission pursuant to the CAN-SPAM Act and the Telephone Consumer Protection Act (also known as the Federal Do-Not-Call law) prohibit companies from sending specified types of commercial text messages unless the recipient has opted in to the receipt of such text messages.

In addition, some states have passed laws regulating commercial email. In some cases, these laws are significantly more punitive and difficult to comply with than the CAN-SPAM Act. For example, Utah and Michigan have enacted do-not-email registries to protect minors from receiving unsolicited commercial email marketing adult content and other products that minors are prohibited from obtaining. Whether such state laws are preempted in whole or in part by the CAN-SPAM Act is uncertain. Furthermore, certain foreign jurisdictions, such as Australia, Canada and the European Union, have also enacted laws that regulate email. Some of these laws are more restrictive than U.S. laws.

As Internet commerce continues to evolve and grow, increasing regulation by federal, state or foreign governments may become more likely. Federal, state or foreign jurisdictions may in the future enact laws or regulations restricting the ability to conduct interactive marketing through mobile, social media and web channels. The cost to comply with such laws or regulations could be significant and

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would increase our operating expenses. We may be unable to pass along those costs to our clients in the form of increased subscription fees. If such restrictions require us to change one or more aspects of the way we operate our business, it could impair our ability to attract and retain clients or otherwise harm our business.

Noncompliance with any existing or future laws and regulations may subject us to significant financial penalties. If we are found to have violated these laws or regulations or if our clients are found to have violated these laws or regulations, we could be required to pay penalties, which would adversely affect our financial performance and harm our reputation and our business.

Regulation of the Internet and the lack of certainty regarding the application of existing laws to the Internet could substantially harm our operating results and business.

We are subject to laws and regulations applicable to doing business over the Internet. It is often not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet, as these laws have in some cases failed to keep pace with technological change. Recently-enacted laws governing the Internet could also impact our business. For instance, existing and future regulations on taxing Internet use or restricting the exchange of information over the Internet could result in reduced growth or a decline in the use of the Internet and could diminish the viability of our services. Furthermore, it is possible that governments of one or more countries may censor, limit or block certain users' access to websites or other social media services. Changing industry standards and industry self-regulation regarding the collection, use and disclosure of certain data may have similar effects. Any such adverse legal or regulatory developments could substantially harm our operating results and our business.

If we are unable to protect our proprietary technology and intellectual property, our business could be adversely affected.

Our success is dependent upon our ability to protect our proprietary technology and intellectual property, which may require us to incur significant costs. We rely on a combination of confidentiality obligations in contracts, patents, copyrights, trademarks, service marks, trade secret laws and other contractual restrictions to establish and protect our proprietary rights. In particular, we enter into confidentiality and invention assignment agreements with all of our employees and consultants and enter into confidentiality agreements with the parties with whom we have business relationships in which they will have access to our confidential information. No assurance can be given that these agreements or other steps we take to protect our intellectual property will be effective in controlling access to and distribution of our solutions and our confidential and proprietary information. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized uses of our intellectual property. Despite our precautions, it may be possible for third parties to copy our solutions and use information that we regard as proprietary to create products and services that compete with ours. Third parties may also independently develop technologies that are substantially equivalent or superior to our solutions. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our solutions may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying and use of our solutions and proprietary information may increase.

In some cases, litigation may be necessary to enforce our intellectual property rights or to protect our trade secrets. Litigation 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 and exposing us to significant

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damages or injunctions. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting less-advanced or more-costly technologies into our solutions or harm our reputation. In addition, we may be required to license additional technology from third parties to develop and market new solutions, and we cannot assure you that we could license that technology on commercially reasonable terms or at all.

We cannot be certain that any patents will be issued with respect to our current or potential patent applications.

To date, we have eight patent applications pending in one or more jurisdictions and no issued patents. We do not know whether any of our patent applications will result in the issuance of patents or whether the examination process will require us to narrow the scope of our claims. To the extent any of our applications proceed to issuance as a patent, any such future patent may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. The process of seeking patent protection can be lengthy and expensive. Some of our technology is not covered by any patent or patent application.

We have entered into a non-exclusive license that allows us to utilize methods covered by a business process patent held by a third party in providing our solutions, and our inability to maintain that license could have a material adverse effect on the functionality of our solutions, which would adversely affect our revenues and results of operations.

We have entered into a license agreement with Hula Holdings, LLC and Subscribermail, LLC (which was acquired by Harland Clarke Corp. in 2010) under which we have a non-exclusive license to use methods covered by a patent owned by Hula Holdings, LLC and licensed to Subscribermail, LLC for multi-level email methodology. The license will survive for the term of the patent, which will expire in 2021. If we were to lose the license for any reason, the functionality of our solutions may decline, which would have a material adverse effect on our revenue, financial condition and results of operations. Because the license is non-exclusive, our competitors may have access to this methodology.

We may be sued by third parties for alleged infringement of their proprietary rights.

The software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights. Companies in our industry are often required to defend against litigation claims based on allegations of infringement or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims or rights against their use. As a result, our success depends upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. From time to time, we have received threatening letters or notices or may be the subject of claims that our solutions and underlying technology infringe or violate the intellectual property rights of others, and we may be found to be infringing upon such rights.

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 solutions or require that we comply with other unfavorable terms. Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

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Indemnity provisions in our subscription agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

In our subscription agreements with our clients, we agree to indemnify our clients against any losses or costs incurred in connection with claims by a third party alleging that a client's use of our services infringes the intellectual property rights of the third party. Companies in the software industry, including those that provide SaaS solutions, frequently face infringement threats from non-practicing organizations (sometimes referred to as "patent trolls") filing lawsuits for patent infringement. Four of our clients have notified us of claims brought against them for infringement by such a patent troll and have requested indemnification or indicated that they may seek redress from us under the indemnification provisions of our contracts with them. Other clients facing infringement claims who are accused of infringement may in the future seek indemnification from us under the terms of our contracts. If such claims are successful, or if we are required to indemnify or defend our clients from these or other claims, these matters could be disruptive to our business and management and have a material adverse effect on our business, operating results and financial condition.

We use open source software in our solutions, which may subject us to litigation or other actions that could adversely affect our business.

We use open source software in our solutions and may use more open source software in the future. In the past, companies that incorporate open source software into their products have faced claims challenging the ownership of open source software or compliance with open source license terms. Therefore, we could be subject to suits by parties claiming ownership of what we believe to be open source software or claiming noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software or make available any derivative works of the open source code on unfavorable terms or at no cost. If we were to use open source software subject to such licenses, we could be required to release our proprietary source code, pay damages, re-engineer our applications, discontinue sales or take other remedial action, any of which could adversely affect our business.

Our inability to acquire and integrate other businesses, products or technologies could harm our operating results.

Since 2009, we have acquired our social media management and engagement platform and three international software reseller partners. We may in the future acquire or invest in businesses, products or technologies that we believe could complement or expand our existing solutions, expand our client base and operations worldwide, enhance our technical capabilities or otherwise offer growth or co