

# VOCUS, INC.

## FORM 10-K (Annual Report)

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Sector	Technology
Fiscal Year	12/31

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

**Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2012

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

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

Commission File Number 000-51644

**VOCUS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**58-1806705**  
(I.R.S. Employer  
Identification No.)

**12051 Indian Creek Court  
Beltsville, Maryland 20705  
(301) 459-2590**

(Address including zip code, and telephone number, including area code, of principal executive offices)

**Securities registered pursuant to Section 12(g) of the Act:**  
None

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, par value \$.01 per share**  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the common stock held by nonaffiliates of the registrant (19,444,557 shares) based on the \$18.60 closing price of the registrant's common stock as reported on the NASDAQ Global Market on June 30, 2012, was approximately \$361,668,760. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

As of March 1, 2013, there were 21,153,714 outstanding shares of the registrant's common stock.

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### **Documents Incorporated by Reference**

Portions of the registrant's definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this Form 10-K.

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## CAUTIONARY NOTES REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-K contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to:

- our plans to develop and market new products and the timing of these development programs;
- our estimates regarding our capital requirements and our needs for additional financing;
- our estimates of expenses and future revenues and profitability;
- our estimates of the size of the markets for our solutions;
- the rate and degree of market acceptance of our solutions; and
- the success of other competing technologies that may become available.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “intends,” “potential” and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading “Risk Factors” in Item 1A. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

This report also contains estimates made by independent parties and by us relating to market size and growth and other industry data. These estimates involve a number of assumptions and limitations and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

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## PART I

### Item 1. *Business*

#### Overview

We are a leading provider of cloud marketing software that helps businesses attract, engage and retain customers. As consumers' buying behavior is increasingly influenced by online information and social networks, our software helps companies reach and influence buyers across social networks, online and through the media.

Our cloud marketing solution addresses key areas of digital marketing, including social media marketing, search marketing, email marketing and publicity. Our software is designed for marketers to attract customers through search engines, increase and engage their followers on social networks such as Facebook and Twitter, communicate with prospects and customers via email and generate and track visibility in traditional and online media. Our buyers share a common goal of marketing and work for organizations of all sizes.

Our sales organization is focused on adding new customers, renewing customer subscriptions and expanding relationships with existing customers. We believe that we have one of the largest sales organizations devoted to selling cloud marketing solutions in the U.S. and Europe. Our small business and mid-market sales teams sell primarily over the telephone and Internet, while our large market sales team travels onsite to meet with larger organizations. In addition to new business sales teams, we have sales representatives focused on account management, including renewal and add-on sales to existing customers.

We deliver our solutions over the Internet using a secure, scalable application and system architecture that allows our customers to quickly deploy and adopt our software. As a pioneer in cloud-based software, our solutions are now used in multiple languages by thousands of organizations worldwide.

#### Our Company

We initially formed in 1988 as First Data Software Publishing, Inc., a Florida corporation, and in 1992 we began selling desktop software for government relations. In 1999, we reincorporated as a Delaware corporation.

#### Industry Background

The Internet has had an impact on almost every aspect of business across all functional areas, with some of the most profound changes happening in the area of consumer behavior and prospect buying patterns. The ubiquity of the Internet, along with the adoption of search engines and the explosive growth in social networking have all rapidly accelerated the availability of quality content and shared buyer experiences.

A new buying process has emerged that takes place prior to engaging with a vendor, and it is taking place online and on social networks, centered on research, references and trusted sources. Internet search engines are replacing yellow pages, local newspapers and television as a primary source for finding vendors, and social networks are now the most popular online activity, with nearly four out of five Internet users visiting social network sites. We believe the traditional seller-driven approach that has been a cornerstone of marketing for the last fifty years is steadily losing effectiveness due to these new buying patterns. As company-led direct marketing continues to become less effective, organizations are increasingly relying on new digital marketing channels to attract, engage and retain customers. These new channels include social media marketing, search marketing, email marketing and publicity, which generate online information, referrals and recommendations that influence buying behavior. Marketing has evolved, and in order to succeed in today's world, marketers must leverage new digital marketing channels to ensure they are working together to generate brand awareness, demand and revenue.

According to Forrester Research, Inc.'s *U.S. Interactive Marketing Forecast, 2011 To 2016*, 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 \$77.0 billion market in the U.S. by 2016, of which email, mobile and social media marketing 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%. As marketers spend more money on these channels, they will also spend more on information technology (IT). According to Gartner, Inc.'s *Gartner Webinar: Profile of Marketing as a Technology Buyer*, CMOs will spend more than CIOs on IT by 2017.

#### Our Solutions

Our cloud marketing suite addresses the critical functions of digital marketing including social media marketing, search marketing, email marketing and publicity.

For small and mid-sized businesses, we provide an easy-to-use suite that helps them attract, engage and retain customers online, across social networks and through the media. For larger organizations, we also provide an in-depth workflow that helps manage publicity campaigns and media relations activities. The key benefits of our solutions include:

*Integrated marketing across multiple channels.* Our solutions help attract, engage and retain customers across multiple communications and marketing channels including social networks such as Facebook and Twitter, search engines such as Google and Bing, media sites including major news sites and thousands of blogs and email communications to prospects and customers.

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*Improved productivity.* Our solutions incorporate features and best practices that automate many marketing functions, freeing users from repetitive, low-value tasks and allowing them to focus on high-value strategic initiatives. Core technology including our Recommendation Engine™ and Buying Signals™ monitors and analyzes large volumes of data and content. For the user, these features identify leads in social media and make easy-to-follow recommendations, which maximize marketing results in much less time.

*ROI based analytics.* Our solutions provide a variety of performance-based analytics that help companies evaluate the success of their marketing campaigns, their search engine marketing and their success online in expanding friends, followers, prospects and customers.

*Enhanced collaboration.* Our solutions provide shared, real-time access to a central repository of information related to contacts, relationships, activities, news, social media, documents and reporting. This enables companies to maintain a history of marketing activities, build better relationships with the media, prospects and customers, and work together more effectively in a team or department environment.

*Rapid time-to-value.* Our cloud-based software can be provisioned quickly and deployed easily, without the need for special consulting services or marketing expertise. Customers can be up and running in less than thirty minutes, getting relevant news and social content, sending online news releases or launching campaigns on Facebook.

## **Our Growth Strategy**

Our objective is to be the leading provider of cloud marketing services. Key elements of our growth strategy include:

*Expanding our cloud marketing suite.* We believe our current marketing suite addresses key elements of digital marketing including social media marketing, search marketing, email marketing and publicity. As new channels continue to emerge, we also believe that we have the opportunity to add other features or modules that address emerging channels such as campaign management, blogging, content management, SMS marketing, mobile marketing and social CRM.

*Expanding our direct sales force.* We believe the cloud marketing space represents a significant market opportunity that will allow us to continue our growth for the foreseeable future. The large market opportunity, combined with our strategy of selling an integrated marketing suite on a subscription basis, makes the direct inside sales model an attractive and differentiated way of driving our growth. We plan to continue to expand our direct sales organization as one of our primary drivers of growth for the foreseeable future.

*Increasing alternate channel distribution.* We believe there are alternate channel opportunities that will allow us to generate additional sales through partnerships and other indirect sales channels. We plan to look for additional opportunities to grow through these alternate distribution channels.

*Selectively pursuing strategic acquisitions.* The fragmented nature of our market provides opportunities for selective acquisitions. We have acquired and integrated several private companies to date, and we will continue to identify and may acquire companies that would either expand our solutions' functionality, provide access to new customers or markets, or both.

## **Our Products**

Our cloud marketing solution addresses the critical functions of marketing including social media marketing, search marketing, email marketing and publicity. Key components of our solution include the following:

*Social Media Marketing.* We provide social media software solutions that help customers run social marketing campaigns on Facebook, including apps that power coupons, promotions and special fan-only offers. Our social media solutions also help customers monitor and analyze conversations across multiple social networks and other online websites in order to understand what is being said about their brands, products and industry. In addition, our social media solutions help identify key influencers and allow customers to identify and engage with prospects and customers on Facebook and Twitter.

*Search Marketing and News Distribution.* Our PRWeb online news distribution service helps customers increase their online visibility and organic search engine rankings with press releases that are optimized for search engines and other online distribution sites.

*Email Marketing.* Our email marketing service provides an easy-to-use method of keeping in touch with prospects and customers by using professional looking emails to send newsletters, special offers and other useful content.

*Publicity.* We provide a comprehensive media database, news monitoring and analytics and publicity opportunities that help companies increase their media exposure, manage relationships with reporters and monitor and analyze trends unfolding in the media.

Due to our flexible design and technology architecture, we are able to sell our components as a stand-alone solution, or combine different components and features into integrated suites to meet the needs and budgets of any size organization.

Small businesses tend not to be marketing experts and are typically focused on running their businesses. They are generally interested in using our products to grow their business with minimal time investment and without learning to be a marketing expert.

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Mid-sized companies typically have a dedicated marketing resource that will invest more time in marketing activities and consequently tend to buy suites with more features at higher price points.

For larger organizations, we sell primarily to their public relations department, which is typically the same size as the marketing department in a mid-sized company. Similar to our other customers, public relations departments are interested in building their brand and reaching and influencing buyers online and across social networks. In addition, they typically spend more time than our other buyers focused on managing relationships with the media and monitoring traditional news.

Each of our key components is available as a stand-alone subscription and also as a part of either a marketing suite or a public relations suite. Our solutions are generally offered on a subscription basis, although our search marketing and news distribution services are also offered on a per-transaction basis.

## **Technology, Development and Operations**

### ***Technology***

We were an early pioneer in cloud-based software, launching our first version in 1999. Our software solutions leverage a highly scalable, multi-tenant architecture and code written primarily for the .NET framework. We use commercially available hardware, and a combination of proprietary, open source and commercially available software, with a bias towards Microsoft products. We have developed proprietary core services that are designed specifically for our architecture to enhance our ability to meet our delivery goals. We have a seamless delivery environment that allows users to be routed in the most optimal way to multiple servers, eliminating the restrictions that come with binding a user to a single server. This seamless delivery environment, coupled with our proprietary core services, allows us to quickly and cost effectively scale our software deliverability systems as we add additional customers.

Our cloud-based software manages all customers as logically separate tenants in central applications and databases. As a result, we are able to spread the cost of delivering our service across our user base. In addition, because we do not have to manage thousands of distinct applications with their own business logic and database schemas, we believe that we can scale our business quickly to meet changes in demand for our products.

Every page of our cloud-based software is dynamically rendered for each specific user, including a choice of multiple languages. Our customers access our solutions through any web browser without installing software or downloading Java applets, Microsoft ActiveX, or .NET controls. Performance, functional depth and usability of our solutions drive our technology decisions and product direction.

### ***Development***

Our research and development efforts are focused on improving and enhancing our existing solutions as well as developing new features and functionality. Because of our multi-tenant architecture, we are able to provide all of our customers with a single version of our solutions, which allows us to maintain relatively low research and development expenses, as compared to other software business models that support multiple versions.

### ***Site Operations***

We serve all of our customers from third-party data center facilities in the United States and Europe. These facilities provide a combination of security personnel, photo ID/access cards, biometric hand scanners and sophisticated fire systems. The overall security of each data center (inside and outside) and network operations center are monitored by digital video surveillance cameras 24 hours a day, seven days a week. Additionally, redundant electrical generators and environmental control devices are used to keep servers up and running. We own or lease and operate all of the hardware on which our applications run in the third-party data center facilities.

We continuously monitor the performance of our software delivery systems. Our site operations team provides system management, maintenance, monitoring and back-up. We use custom, proprietary tools as well as commercially available tools to monitor our solutions. We run tests to ensure adequate response from our sites. We also monitor site availability and latency from various geographic points around the world.

To facilitate loss recovery, we operate a multi-tiered system configuration with load balanced web server pools, standby database servers and fault tolerant storage devices. Databases are backed up frequently to standby databases and servers, which are designed to provide near real-time fail-over service in the event of a malfunction with a primary database or server. Backups of databases take place nightly and are archived to tape. These tapes are rotated off-site to a separate third-party managed facility. We also maintain a redundant site for our U.S. facility, which would serve as our primary site in the event that a disaster was to render one of the third-party sites inoperable.

### ***Customer Support***

We believe that superior customer support is critical to retaining and expanding our customer base. Our customer support group is responsible for new customer implementations, consulting services, news release editing services and general help desk services. Our help desk services include identifying, analyzing and solving customer problems or issues. Our customers are able to obtain support from us through their preferred channel, as we offer services to customers on-site, by telephone, and over the Internet through email, live chat and social media. We also offer a variety of product training on-site and online through live or pre-recorded web-based classes. Customer support is available during standard business hours in the U.S. and Europe and is also available 24/7 for some support tasks or at an additional charge.

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## Sales and Marketing

We sell our cloud-based solutions primarily through our direct sales organization, and over the Internet in an e-commerce model and to a lesser extent through indirect sales channels. Our direct sales organization is separated into groups that focus either on selling to new customers or selling to existing customers. In our new customer sales group, we employ inside sales and field sales personnel to provide product demonstrations to prospects and close sales with new customers. Our existing customer sales group focuses on renewing customer relationships and expanding those relationships by selling our solutions with expanded functionality at higher price points. We also employ lead generation personnel who qualify prospects and setup product demonstrations for our new sales personnel. We currently have sales offices in the United States, Europe and Asia.

We also sell several of our products over the Internet in an e-commerce model. Through various marketing activities we drive prospects to one of several websites that offer either a free trial or a free account for one of our cloud marketing solutions. Some prospects then go on to purchase either a monthly subscription or a single transaction. Going forward we may create additional websites to sell other products over the Internet in an e-commerce model.

Our marketing strategy is to generate qualified sales leads, build our brand and create market awareness of our cloud marketing software. Our marketing solutions include social media marketing, search marketing, email marketing and publicity. We also conduct seminars, participate in trade shows and industry conferences, host an annual marketing conference, publish white papers and develop customer reference programs. We also use our website to provide company and product information and to attract prospects through organic search.

## Our Customers

As of December 31, 2012, we had 16,494 active annual subscription customers. These customers represent a wide variety of industries, as well as government agencies, not-for-profit organizations and educational institutions. No single end-user customer accounted for more than 1.0% of our revenue in 2012.

The typical term of our subscription agreements is one year; however, our customers may purchase subscriptions with monthly or multi-year terms. We invoice our subscription customers in advance of their subscription term, with payment terms that generally require our customers to pay us within 30 days of invoice. We had approximately \$13.5 million and \$10.4 million of unbilled amounts at December 31, 2011 and 2012, respectively. These amounts may fluctuate from year-to-year depending on varying billing cycles for our subscription agreements, including seasonality in our sales cycle, the timing of renewal agreements and the amount of multi-year subscription agreements. Such fluctuations may not be indicative of our future revenue.

## Competition

The cloud marketing space is fragmented, competitive and rapidly evolving, and there are limited barriers to entry. We expect to encounter new and evolving competition as the market consolidates and matures and as organizations become more aware of the advantages and efficiencies that can be attained from the use of cloud marketing software. Currently, we primarily face competition from smaller, less established companies, including HubSpot and Infusionsoft, who provide a product suite that is focused on a limited or different subset of the components we offer in our cloud marketing suite.

We also compete with a wide variety of point product solutions from both established vendors and new vendors entering the digital marketing space, including Marketo, and Wildfire, a division of Google.

Our competitive edge is our ability to offer an integrated suite that is both comprehensive and unique. Our suite integrates key components of digital marketing, including social media marketing, search marketing, email marketing and publicity.

We believe the principal factors that generally determine a company's competitive advantage in the cloud marketing space include the following:

- broad product functionality and depth of integration;
- ease of use;
- low total cost of ownership and easily demonstrable cost-effective benefits for customers;
- flexibility and configurability to meet customer requirements;
- rapid deployment and adoption;
- speed, reliability and functionality;
- system performance, security and scalability;
- ease of integration with existing applications and data;
- availability and quality of implementation, training and help-desk services; and
- competitive sales and marketing capabilities.

## Intellectual Property and Proprietary Content

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We have registered, and applied for the registration of, U.S. and international trademarks, service marks and domain names. Additionally, we have filed U.S. patent applications covering certain of our proprietary technology. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information.

We currently license content included in our cloud-based software from several providers pursuant to data reseller, data distribution and license agreements with these providers. These agreements provide us with content such as news coverage from print and Internet news sites, as well as contact information for journalists, analysts, public officials, media outlets and publicity opportunities. The licenses for this content are non-exclusive. The agreements vary in length, and generally renew automatically subject to certain cancellation provisions available to the parties. Fees for the content provided are generally either fixed amounts per subscriber or based upon the number of concurrent users at a subscriber. Such fees are generally paid quarterly or monthly. During 2005, we developed our own United States content which replaced a significant portion of our acquired third-party content and began providing our internally-developed content to our customers. In 2008, we developed and began providing to our customers our own content for the United Kingdom and Ireland. In 2010, we acquired a media database through our acquisition of Data Presse SAS and began providing this content to our customers in France. We do not believe that any of our content providers are single source suppliers, the loss of whom would substantially affect our business.

If a claim is asserted that we have infringed the intellectual property of a third-party, we may be required to seek licenses to that technology. In addition, we license third-party technologies that are incorporated into some elements of our services. Licenses from third parties may not continue to be available to us at a reasonable cost, or at all. Additionally, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our services.

## Employees

As of December 31, 2012, we had 1,273 full-time and part-time employees. Certain of our employees are subject to collective bargaining agreements and have local work councils. We have never experienced a significant work stoppage and believe we have good relations with our employees.

## Executive Officers and Key Employees

Our executive officers and key employees and their respective ages and positions as of February 21, 2013 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Richard Rudman*	51	Chief Executive Officer, President and Chairman
Stephen Vintz*	44	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Norman Weissberg*	51	Senior Vice President, North American Sales
Mark Heys*	41	Chief Technology Officer
You Mon Tsang*	47	Senior Vice President, Products
Jason Jue	41	Chief Marketing Officer
Holly Paul	42	Chief Human Resources Officer
Darren Stewart	44	Senior Vice President, Customer Services
James Bruno	48	Senior Vice President, International

\* Denotes an executive officer

*Richard Rudman* co-founded Vocus and has served as our Chief Executive Officer, President and Chairman since 1992. From 1986 through 1992, Mr. Rudman served as a senior executive at Dataway Corporation, a software development company. From 1984 through 1986, Mr. Rudman served as an accountant and systems analyst at Barlow Corporation, a privately held real estate development and management company. From 1979 through 1983, Mr. Rudman served in the United States Air Force. Mr. Rudman holds a B.S. degree in Accounting from the University of Maryland and is a Certified Public Accountant.

*Stephen Vintz* has served as our Chief Financial Officer and Treasurer since January 2001 and in October 2010 was also named as an Executive Vice President. From November 1996 to January 2001, Mr. Vintz was Vice President of Strategic Planning and Analysis at Snyder Communications, Inc., a marketing services company. Prior to November 1996, Mr. Vintz was a manager at Ernst & Young LLP. Mr. Vintz holds a B.B.A. degree in Accounting from Loyola University of Maryland and is a Certified Public Accountant.

*Norman Weissberg* has served as our Senior Vice President, North American Sales since June 2006. From August 1998 until June 2006, Mr. Weissberg was our Vice President, Account Sales. From March 1997 to August 1998, Mr. Weissberg was a Major Accounts Manager at Xerox Corporation. Mr. Weissberg holds a B.S. degree in Business from the University of Maryland.

*Mark Heys* has served as our Chief Technology Officer since February 2008. From December 1998 to February 2008, Mr. Heys was our Vice President, Development. From February 1996 through November 1998, Mr. Heys served as Development Manager at T4G Limited, a privately held company. Prior to T4G, Mr. Heys was the founder and CEO of Definitive Ideas, a software company focused on Point-of-Sale applications.

*You Mon Tsang* has served as our Senior Vice President, Products since December 2010. From March 2006 to December 2010, Mr. Tsang served as Chief Executive Officer of Boxxet, Inc., a content aggregation company, and founded Engine140, a social marketing company, in January 2010. From January 2000 to March 2010, Mr. Tsang served in various positions including as the Chief Executive Officer, Chief Marketing Officer and Chairman, of Biz360, a marketing and communications performance monitoring company. From January 1988 to December 1999, Mr. Tsang held various product management and executive positions at Brio Technology, Milktruck, Traveling Software and Xerox. Mr. Tsang holds a B.A. degree in Urban Studies from Yale University and an M.B.A. degree from the University of California, Berkeley's Walter A. Haas School of Business.

*Jason Jue* served as our Chief Marketing Officer from November 2011 to February 2013. From July 2010 to October 2011, Mr. Jue was the Vice President of Marketing at Rackspace Hosting. From January 1997 through June of 2010, Mr. Jue held various marketing and executive positions at Dell in the U.S. and Asia. From September 2000 to October 2004, Mr. Jue was not employed at Dell and took a self-imposed sabbatical. From September 1993 to December 1996 Mr. Jue was a consultant at Bain & Company. Mr. Jue holds a B.A. degree in Economics from Harvard College.

*Holly Paul* has served as our Chief Human Resources Officer since January 2013. From September 1994 to January 2013, Ms. Paul served in various positions at PricewaterhouseCoopers, a professional services firm, including the U.S. Talent Acquisition Leader and Human Resource Leader for strategic internal firm services. Ms. Paul holds a B.A. degree in Anthropology with a concentration in Accounting from Lafayette College, is a member of the Society for Human Resource Management and is a certified Senior Professional in Human Resources.

*Darren Stewart* has served as our Senior Vice President, Customer Services since February 1996. From January 1994 through February 1996, Mr. Stewart worked for Information Systems Group, a software consulting company. From September 1992 through January 1994, Mr. Stewart was Manager of Customer Service for Job Files Corporation, a privately held HR software and services company. Mr. Stewart holds a B.S. degree in Business Administration and Finance from the University of Colorado.

*James Bruno* has served as our Senior Vice President, International since May 2012. From May 2010 to May 2012, Mr. Bruno was our Senior Vice President, Corporate Development. From June 2009 to May 2010, Mr. Bruno served as Vice President, Sales for Remedi SeniorCare, a provider of institutional pharmacy services. From August 2008 to December 2008, Mr. Bruno served as Senior Vice President, Commercial Operations, North America, for Arpida, a pharmaceutical company. Mr. Bruno served as Vice President, Sales at MiddleBrook Pharmaceuticals from December 2003 to October 2007. From February 2003 to November 2003, Mr. Bruno worked as an Account Manager for Thompson West. From April 2000 to July 2002, Mr. Bruno served as Vice President, International Marketing at MedImmune, a biotechnology company. Mr. Bruno holds a B.S. degree in Marketing from St. Joseph's University and an M.B.A. degree from Drexel University.

## **Available Information**

We make available free of charge on or through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Our website address is [www.vocus.com](http://www.vocus.com).

## **Item 1A. Risk Factors**

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties not presently known to us that we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer.

## **Risks Related to Our Business and Industry**

***Our quarterly results of operations may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of investors or securities analysts which could cause our stock price to decline.***

Our quarterly revenue and results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly revenue or results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Fluctuations in our results of operations may be due to a number of factors, including, but not limited to, those listed below and identified throughout this "Risk Factors" section:

- our ability to retain and increase sales to existing customers and attract new customers;

- changes in the volume and mix of our solutions sold in a particular quarter;
- seasonality of our business cycle, given that our subscription volumes are normally lowest in the first quarter and highest in the fourth quarter;
- the timing and success of new product introductions or upgrades by us or our competitors;
- costs associated with acquisitions of technologies and businesses;
- the rate of expansion and productivity of our sales force;
- changes in our pricing policies or those of our competitors;
- changes in the payment terms for our products and services;
- the amount and timing of non-recurring charges or expenditures related to expanding or discontinuing our operations;
- changes in accounting policies or the adoption of new accounting standards;
- our policy of expensing sales commissions at the time our customers are invoiced for a subscription agreement, while the majority of such revenue is recognized ratably over future periods;
- changes in the estimates and assumptions used to determine the fair value of contingent consideration associated with our acquisitions;
- fluctuations in our effective tax rate including changes in the mix of earnings in the various jurisdictions in which we operate, the valuation of deferred tax assets and liabilities and the deductibility of certain expenses and changes in uncertain tax positions;
- foreign currency exchange rates;
- the timing of customer payments and payment defaults by customers;
- the purchasing and budgeting cycles of our customers; and
- extraordinary expenses such as litigation or other dispute-related settlement payments.

Most of our expenses, such as salaries and third-party hosting co-location costs, are relatively fixed in the short-term, and our expense levels are based in part on our expectations regarding future revenue levels. As a result, if revenue for a particular quarter is below our expectations, we may not be able to proportionally reduce operating expenses for that quarter, causing a disproportionate effect on our expected results of operations for that quarter.

Due to the foregoing factors, and the other risks discussed in this report, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance.

***The markets for our cloud marketing software are emerging, which makes it difficult to evaluate our business and future prospects and may increase the risk of your investment.***

The market for cloud-based software specifically designed for marketing is relatively new and emerging, making our business and future prospects difficult to evaluate. We have three distinct types of customers: small business owners, marketing professionals and PR professionals. These professionals work at companies of all sizes with PR professionals generally concentrated in large and mid-sized organizations and marketing professionals and small business owners generally concentrated in small and mid-sized organizations. Many large and mid-sized companies have often invested substantial personnel and financial resources in their PR departments, and may be reluctant or unwilling to migrate to cloud-based software and services specifically designed to address the marketing market. And many small businesses may have a single individual fulfilling multiple roles for marketing, if they have any marketing resource at all. Our success will depend to a substantial extent on the willingness of companies of every size to increase their use of or begin using cloud-based solutions in general and for cloud marketing software and services in particular. You must consider our business and future prospects in light of the challenges, risks and difficulties we encounter in the new and rapidly evolving market of cloud marketing solutions. These challenges, risks and difficulties include the following:

- generating sufficient revenue to attain or, if attained, maintain profitability;
- managing growth in our operations;
- managing the risks associated with developing new services and modules;
- attracting and retaining customers; and
- attracting and retaining key personnel.

We may not be able to successfully address any of these challenges, risks and difficulties, including the other risks related to our business and industry described below. Further, if businesses do not perceive the benefits of our cloud-based solutions, then the market may not develop further, or it may develop more slowly than we expect, either of which would adversely affect our business, financial condition and results of operations.

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***A majority of our solutions are sold pursuant to subscription agreements, and if our existing subscription customers elect either not to renew these agreements, renew these agreements for fewer modules or users, or renew these agreements for less expensive services, our business, financial condition and results of operations will be adversely affected.***

A portion of our solutions are sold pursuant to subscription agreements and our customers have no obligation to renew these agreements. As a result, we may not be able to consistently and accurately predict future renewal rates. Our subscription customers' renewal rates may decline or fluctuate or our subscription customers may renew for fewer modules or users or for less expensive services as a result of a number of factors, including their level of satisfaction with our solutions, budgetary or other concerns, and the availability and pricing of competing products. Additionally, we may lose our subscription customers due to the high turnover rate in the marketing or PR departments of small and mid-sized organizations. If large numbers of existing subscription customers do not renew these agreements, or renew these agreements on terms less favorable to us, and if we cannot replace or supplement those non-renewals with new subscription agreements generating the same or greater level of revenue, our business, financial condition and results of operations will be adversely affected.

***Because we recognize subscription revenue over the term of the applicable subscription agreement, the lack of subscription renewals or new subscription agreements may not be immediately reflected in our operating results.***

We recognize revenue from our subscription customers over the terms of their subscription agreements. The majority of our quarterly revenue usually represents deferred revenue from subscription agreements entered into during previous quarters. As a result, a decline in new or renewed subscription agreements in any one quarter will not necessarily be fully reflected in the revenue for the corresponding quarter but will negatively affect our revenue in future quarters. Additionally, the effect of significant downturns in sales and market acceptance of our solutions may not be fully reflected in our results of operations until future periods. Our model also makes it difficult for us to rapidly increase our subscription-based revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

***We are subject to risks related to credit card payments we accept. If we fail to be in compliance with applicable credit card rules and regulations, we may incur additional fees, fines and ultimately the revocation of the right to accept credit card payments, which would have a material adverse effect on our business, financial condition or results of operations.***

Some of the customers of our services, including our newly acquired email marketing service offerings, pay amounts owed to us using a credit card or debit card. For credit and debit card payments, we pay interchange and other fees, which may increase over time and raise our operating expenses and adversely affect our net income. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted making it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers which could have an adverse effect on our business, revenue, financial condition and results of operations.

***We might not generate increased business from our current customers, which could limit our revenue in the future.***

The success of our strategy is dependent, in part, on the success of our efforts to sell additional services to our existing customers. These customers might choose not to expand their use of or make additional purchases of our solutions. If we fail to generate additional business from our current customers, our revenue could grow at a slower rate or decrease.

***Our business model continues to evolve, which may cause our results of operations to fluctuate or decline.***

Our business continues to evolve, expanding into new markets and new service areas, and is therefore subject to additional risk and uncertainty. For example, in 2008 we began offering solutions specifically for small businesses, in June 2010, we began providing social media monitoring services to our customers, in October 2011 we began offering a marketing suite targeted at small to mid-sized businesses, and in February 2012, we acquired iContact Corporation (iContact) which provides email marketing services. We anticipate that our future financial performance and revenue growth will depend, in part, upon the growth of these services and expansion beyond our current marketing automation solutions including our social media marketing and email marketing offerings.

***As more of our sales efforts are targeted at small business customers that are more substantively affected by economic conditions than the large and mid-sized business sectors, economic downturns may cause potential and existing small business customers to fail to purchase our solutions, which could limit our revenue in the future.***

We have increased sales of our services to small organizations, including small businesses, associations and non-profits that frequently have limited budgets and may be more likely to be significantly affected by economic downturns than their larger, more established counterparts. Small organizations may be more likely to spend the limited funds that they have on items other than our solutions. Additionally, if small organizations experience economic hardship, they may be unwilling or unable to expend resources on marketing, which would negatively affect demand for our solutions, increase customer attrition and adversely affect our business, revenue, financial condition and results of operations.

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***We depend on search engines to attract new customers, and if those search engines change their listings or our relationship with them deteriorates or terminates, we may be unable to attract new customers and our business may be harmed.***

We rely on search engines to attract new customers, and many of our customers locate our websites by clicking through on search results displayed by search engines such as Google and Yahoo!. Search engines typically provide two types of search results, algorithmic and purchased listings. Algorithmic search results are determined and organized solely by automated criteria set by the search engine and a ranking level cannot be purchased. Advertisers can also pay search engines to place listings more prominently in search results in order to attract users to advertisers' websites. We rely on both algorithmic and purchased listings to attract customers to our websites. Search engines revise their algorithms from time to time in an attempt to optimize their search result listings. If search engines on which we rely for algorithmic listings modify their algorithms, then our websites may not appear at all or may appear less prominently in search results which could result in fewer customers clicking through to our websites, requiring us to resort to other potentially costly resources to advertise and market our services. If one or more search engines on which we rely for purchased listings modifies or terminates its relationship with us, our expenses could rise, or our revenue could decline and our business may suffer. Additionally, the cost of purchased search listing advertising is rapidly increasing as demand for these channels grows, and further increases could greatly increase our expenses.

***Failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our solutions.***

Increasing our customer base and achieving broader market acceptance of our solutions will depend to a significant extent on our ability to expand our sales and marketing operations. We plan to continue to expand our direct sales force which may require us to invest significant financial and other resources. Our business will be seriously harmed if our efforts do not generate a corresponding significant increase in revenue. We may not achieve anticipated revenue growth from expanding our direct sales force if we are unable to hire and develop talented direct sales personnel, if our new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if we are unable to retain our existing direct sales personnel. We also may not achieve anticipated revenue growth from our existing third-party channel partners if we are unable to maintain or renew such relationships, if any existing third-party channel partners fail to successfully market, resell, implement or support our solutions for their customers, or if they represent multiple providers and devote greater resources to market, resell, implement and support competing products and services.

***If we fail to develop our brands, our business may suffer.***

We believe that developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future services and is an important element in attracting new customers. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful solutions. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brands. If we fail to successfully promote and maintain our brands, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, we may fail to attract new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

***If our information databases do not maintain market acceptance, our business, financial condition and results of operations could be adversely affected.***

We have developed our own content that is included in the information databases that we make available to our customers through our cloud-based software. If our internally-developed content does not maintain market acceptance, current customers may not continue to renew their subscription agreements with us, and it may be more difficult for us to acquire new customers.

***We rely on third-parties to provide certain content for our solutions, and if those third-parties discontinue providing their content, our business, financial condition and results of operations could be adversely affected.***

We rely on third-parties to provide or make available certain data for our information databases, our news monitoring service and our social media monitoring service. These third-parties may not renew agreements to provide content to us or may increase the price they charge for their content. Additionally, the quality of the content provided to us may not be acceptable to us and we may need to enter into agreements with additional third-parties. In the event we are unable to use such third-party content or are unable to enter into agreements with third-parties, current customers may not renew their subscription agreements with us or continue purchasing solutions from us, and it may be difficult to acquire new customers.

***We depend on search engines for the placement of our customers' online news releases, and if those search engines change their listings or our relationship with them deteriorates or terminates, our reputation will be harmed and we may lose customers or be unable to attract new customers.***

Our news distribution service depends upon the placement of our customers' online press releases. If search engines on which we rely modify their algorithms or purposefully block our content, then information distributed via our news distribution service may not be displayed or may be displayed less prominently in search results, and as a result we could lose customers or fail to attract new customers and our results of operations could be adversely affected.

***If the delivery of our customers' emails is limited or blocked, customers may cancel their accounts.***

Internet service providers (ISP) can block emails from reaching their users. The implementation of new or more restrictive policies by ISPs may make it more difficult to deliver our customers' emails. If ISPs materially limit or halt the delivery of our customers' emails, or if we fail to deliver our customers' emails in a manner compatible with ISPs' email handling, authentication technologies or other policies, then customers may cancel their accounts which could harm our business and financial performance.



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***Various private spam blacklists may interfere with the effectiveness of our products and our ability to conduct business.***

We depend on email to market to and communicate with our customers, and our customers rely on email to communicate with journalists, social media influencers, and their customers and members. Various private entities attempt to regulate the use of email for commercial solicitation. These entities often advocate standards of conduct or practice that exceed legal requirements and classify certain email solicitations that comply with legal requirements as spam. Some of these entities maintain “blacklists” of companies and individuals, and the websites, ISPs and Internet protocol addresses associated with those entities or individuals. If a company’s Internet protocol addresses are listed by a blacklisting entity, emails sent from those addresses may be blocked if they are sent to any Internet domain or Internet address that subscribes to the blacklisting entity’s service or purchases its blacklist. If our services are blacklisted our customers may be unable to effectively use our services, and as a result we could lose customers or fail to attract new customers and our results of operations could be adversely affected.

***Our customers’ use of our services and websites to transmit negative messages or links to harmful websites or applications could damage our reputation, and subject us to liability.***

Our customers could use our services or websites to transmit negative messages or links to harmful websites or applications, reproduce and distribute copyrighted and trademarked material without permission, or report inaccurate or fraudulent data or information. Any such use of our services could damage our reputation and we could face claims for damages, infringement, defamation, negligence or fraud. Moreover, our customers’ promotion of their products and services through our services may not comply with federal, state and foreign laws. Facilitating these activities may expose us to liability including fines or penalties, or expend resources to remedy any damages caused by such actions.

***We have incurred operating losses in the past and may incur operating losses in the future.***

We have incurred operating losses in the past and we may incur operating losses in the future. Our recent operating losses were \$3.6 million for 2010, \$4.2 million for 2011 and \$21.9 million for 2012. We expect our operating expenses to increase as we continue to expand our operations, and if our increased operating expenses exceed our revenue growth, we may not be able to generate operating income. You should not consider recent quarterly revenue growth as indicative of our future performance. In fact, in future quarters, we may not have any revenue growth or our revenue could decline.

***Unanticipated changes in our effective tax rate could adversely affect our future results.***

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions.

Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in jurisdictions with differing statutory tax rates, certain non-deductible expenses, the valuation of deferred tax assets and liabilities and changes in federal, state or international tax laws and accounting principles. Changes in our effective tax rate could materially affect our net results.

In addition, we are subject to income tax audits by certain tax jurisdictions throughout the world. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

***If we are required to collect sales and use or other taxes on our solutions, we may be subject to liability for past sales and our business, financial condition and results of operations may be adversely affected.***

Taxing jurisdictions, including state and local entities, have differing rules and regulations governing sales and use or other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our subscription services and ecommerce transactions in general in various jurisdictions is a complex and evolving issue. It is possible that we could face sales tax audits and an assertion that we should be collecting sales or other taxes on our services in jurisdictions where we have not historically done so and do not accrue for sales taxes. The imposition of Internet usage taxes or enhanced enforcement of sales tax laws could result in substantial tax liabilities for past sales or could have an adverse effect on our business, financial condition and results of operations.

***We face competition, and our failure to compete successfully could make it difficult for us to add and retain customers and could reduce or impede the growth of our business.***

The market for marketing solutions is fragmented, competitive and rapidly evolving, and there are limited barriers to entry to some segments of this market. We expect the intensity of competition to increase in the future as existing competitors develop their capabilities and as new companies enter our market. Increased competition could result in pricing pressure, reduced sales, lower margins or the failure of our solutions to achieve or maintain broad market acceptance. If we are unable to compete effectively, it will be difficult for us to maintain our pricing rates and add and retain customers, and our business, financial condition and results of operations will be seriously harmed. We face competition from:

- generic desktop software and other commercially available software not specifically designed for marketing;
- marketing solution providers offering products specifically designed for marketing;
- outsourced marketing service providers;
- custom-developed solutions;
- software companies offering social media solutions;
- email marketing providers; and
- press release distribution providers.



Many of our current and potential competitors have longer operating histories, a larger presence in the marketing market, access to larger customer bases and substantially greater financial, technical, sales and marketing, management, service, support and other resources than we have. As a result, our competitors may be able to respond more quickly than we can to new or changing opportunities, technologies, standards or customer requirements or devote greater resources to the promotion and sale of their products and services than we can. To the extent our competitors have an existing relationship with a potential customer, that customer may be unwilling to switch vendors due to existing time and financial commitments with our competitors.

We also expect that new competitors, such as enterprise software vendors and cloud-based service providers that have traditionally focused on enterprise resource planning or back office applications, will enter the cloud marketing market with competing products as the cloud marketing market develops and matures. Many of these potential competitors have established or may establish business, financial or strategic relationships among themselves or with existing or potential customers, alliance partners or other third-parties or may combine and consolidate to become more formidable competitors with better resources. It is possible that these new competitors could rapidly acquire significant market share.

Traditional press release distribution providers now offer press release distribution services through the Internet. We had or continue to have partnerships with these providers to co-market and sell our press release distribution services. It is possible that these competitors could rapidly acquire significant market share.

We expect that many companies will offer solutions designed to help businesses promote themselves across social media channels. Given the rapid adoption of social media and the dynamic nature of the vendors in this market, it is possible that these new competitors could rapidly acquire significant market share.

***If we fail to respond to evolving industry standards, our solutions may become obsolete or less competitive.***

The market for our solutions is characterized by changes in customer requirements, changes in protocols, new technologies and evolving industry standards. If we are unable to enhance or develop new features for our existing solutions or develop acceptable new solutions that keep pace with these changes, our cloud-based software and services may become obsolete, less marketable and less competitive and our business will be harmed. The success of any enhancements or new services depends on several factors, including timely completion, introduction and market acceptance of our solutions. Failure to produce acceptable new offerings and enhancements may significantly impair our revenue growth and reputation.

***If there are interruptions or delays in providing our solutions due to third-party error, our own error or the occurrence of unforeseeable events, delivery of our solutions could become impaired, which could harm our relationships with customers and subject us to liability.***

Our solutions reside on hardware that we own or lease and operate. Our hardware is currently located in various third-party data center facilities maintained and operated in the U.S. and Europe. Our third-party facility providers do not guarantee that our customers' access to our solutions will be uninterrupted, error-free or secure. Our operations depend, in part, on our third-party facility providers' ability to protect systems in their facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. In the event that our third-party facility arrangements are terminated, or there is a lapse of service or damage to such third-party facilities, we could experience interruptions in our service as well as delays and additional expense in arranging new facilities and services.

Our disaster recovery computer hardware and systems, which are located at third-party data center facilities, have not been tested under actual disaster conditions and may not have sufficient capacity to recover all data and services in the event of an outage occurring at our third-party facilities. Any or all of these events could cause our customers to lose access to our cloud-based software. In addition, the failure by our third-party facilities to meet our capacity requirements could result in interruptions in such service or impede our ability to scale our operations.

We architect the system infrastructure and procure and own or lease the computer hardware used for our services. Design and mechanical errors, spikes in usage volume and failure to follow system protocols and procedures could cause our systems to fail, resulting in interruptions in our service. Any interruptions or delays in our service, whether as a result of third-party error, our own error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with customers and our reputation. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could reduce our revenue, subject us to liability, and cause us to issue credits or cause customers to fail to renew their subscriptions, any of which could adversely affect our business, financial condition and results of operations.

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***Acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and consume resources that are necessary to sustain our business.***

One of our business strategies is to selectively acquire companies which either expand our solutions' functionality, provide access to new customers or markets, or both. An acquisition may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the technologies, products, personnel or operations of the acquired organizations, particularly if the key personnel of the acquired company choose not to work for us, and we may have difficulty retaining the customers of any acquired business due to changes in management and ownership. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our business. We also may experience lower rates of renewal from subscription customers obtained through acquisitions than our typical renewal rates. Moreover, we cannot provide assurance that the anticipated benefits of any acquisition, investment or business relationship would be realized, that we would not be exposed to unknown liabilities, or that such an acquisition will be viewed positively by our customers, stockholders, analysts or the financial markets. In connection with one or more of these transactions, we may:

- issue additional equity securities that would dilute the ownership of our stockholders;
- use cash that we may need in the future to operate our business;
- be unable to achieve the anticipated benefits from our acquisitions;
- incur or assume debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of an acquired company or integrating diverse business cultures;
- encounter problems arising from differences in the revenue, licensing or support of the acquired business; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

In 2010, we acquired substantially all of the assets of Two Cats and a Cup of Coffee LLC (dba HARO) and Boxxet, Inc. (dba Engine140). In 2011, we acquired substantially all of the assets and assumed certain liabilities of North Venture Partners, LLC (North Social). In 2012, we acquired all of the outstanding shares of iContact, an email marketing company.

In 2010, we acquired all of the outstanding shares of Data Presse SAS and substantially all of the assets of BDL Media Ltd. Foreign acquisitions involve risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

The consideration paid in connection with an acquisition also affects our financial results. If we should proceed with one or more significant acquisitions in which the consideration includes cash, we could be required to use a substantial portion of our available cash to consummate any such acquisition. For example, the purchase price of the iContact acquisition included approximately \$90.5 million in cash. To the extent that we issue shares of stock or other rights to purchase stock, existing stockholders may be diluted and earnings per share may decrease. For example, as part of the purchase price for iContact, we issued 401,672 shares of our common stock and 1,000,000 shares of preferred stock that are initially convertible into 3,025,600 shares of our common stock.

In addition, acquisitions may result in our incurring additional debt, material one-time write-offs, or purchase accounting adjustments and restructuring charges. They may also result in recording goodwill and other intangible assets in our financial statements which may be subject to future impairment charges or ongoing amortization costs, thereby reducing future earnings. In addition, from time to time, we may enter into negotiations for acquisitions or investments that are not ultimately consummated. Such negotiations could result in significant diversion of management time, as well as incurring expenses that may impact operating results.

***We may be liable to our customers and may lose customers if we provide poor service, if our solutions do not comply with our agreements or if there is a loss of data.***

The information in our databases may not be complete or may contain inaccuracies that our customers regard as significant. Our ability to collect and report data may be interrupted by a number of factors, including our inability to access the Internet, the failure of our network or software systems or failure by our third-party data center facilities to meet our capacity requirements. In addition, computer viruses and intentional or unintentional acts of our employees may harm our systems causing us to lose data we maintain and supply to our customers or data that our customers input and maintain on our systems, and the transmission of computer viruses could expose us to litigation. Our subscription agreements generally give our customers the right to terminate their agreements for cause if we materially breach our obligations. Any failures in the services that we supply or the loss of any of our customers' data that we cannot rectify in a certain time period may give our customers the right to terminate their agreements with us and could subject us to liability. As a result, we may also be required to spend substantial amounts to defend lawsuits and pay any resulting damage awards. In addition to potential liability, if we supply inaccurate data or experience interruptions in our ability to supply data, our reputation could be harmed and we could lose customers.

Moreover, because our solutions are cloud-based, the amount of data that we store for our customers on our servers is ever-increasing. Any systems failure or compromise of our security that results in the release of our customers' data could seriously limit the adoption of our solutions and harm our reputation causing our business to suffer. In addition, any person who circumvents our security measures could steal proprietary or confidential customer information or cause interruptions in our operations. We incur significant costs to protect against security breaches, and may incur significant additional costs to alleviate problems caused by any breaches. Customers' concerns about security could deter them from using the Internet to conduct transactions that involve confidential information, so our failure to prevent security breaches, or well-publicized security breaches affecting the Internet in general, could significantly harm our business and financial results.

Although we maintain general liability insurance, including coverage for errors and omissions, this coverage may be inadequate, or may not be available in the future on acceptable terms, or at all. In addition, we cannot provide assurance that this policy will cover any claim against us for loss of data or other indirect or consequential damages and defending a suit, regardless of its merit, could be costly and divert management's attention.

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***If our solutions fail to perform properly or if they contain technical defects, our reputation will be harmed, our market share would decline and we could be subject to product liability claims.***

Our cloud-based software may contain undetected errors or defects that may result in product failures or otherwise cause our solutions to fail to perform in accordance with customer expectations. Because our customers use our solutions for important aspects of their business, any errors or defects in, or other performance problems with, our solutions could hurt our reputation and may damage our customers' businesses. If that occurs, we could lose future sales or our existing subscription customers could elect to not renew. Product performance problems could result in loss of market share, failure to achieve market acceptance and the diversion of development resources. If one or more of our solutions fail to perform or contain a technical defect, a customer may assert a claim against us for substantial damages, whether or not we are responsible for our solutions' failure or defect. We do not currently maintain any warranty reserves.

Product liability claims could require us to spend significant time and money in litigation or arbitration/dispute resolution or to pay significant settlements or damages. Although we maintain general liability insurance, including coverage for errors and omissions, this coverage may not be sufficient to cover liabilities resulting from such product liability claims. Also, our insurer may disclaim coverage. Our liability insurance also may not continue to be available to us on reasonable terms, in sufficient amounts, or at all. Any product liability claim successfully brought against us could cause our business to suffer.

Our news distribution service is a trusted information source, and our customers rely on our email services to communicate with journalists, social media influencers, and their customers and members. To the extent we were to distribute an inaccurate or fraudulent press release or our customers used our services to transmit negative messages or website links to harmful applications, reproduce and distribute copyrighted and trademarked material without permission, or report inaccurate or fraudulent data or information, our reputation could be harmed, even though we are not responsible for the content distributed via our services. Additionally, if our services are blacklisted, our customers may be unable to effectively use our services, and as a result, we could lose customers or fail to attract new customers and our results of operations could be adversely affected.

***Privacy concerns and laws or other domestic or foreign regulations may reduce the effectiveness of our solution and adversely affect our business.***

We provide contact information to our customers and our customers can use our service to store contact and other personal or identifying information regarding their marketing contacts. Federal, state and foreign government agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from individuals. Other proposed legislation could, if enacted, prohibit or limit the use of certain technologies that track individuals' activities on web pages, in emails or on the Internet. In addition to government activity, privacy advocacy groups and the technology and marketing industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us or our customers which could reduce demand for our solutions.

The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to us and to the businesses of our customers may reduce demand for our solutions, or lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws and could negatively impact our ability to effectively market our solutions. Even the perception of privacy concerns, whether or not valid, could cause our business to suffer.

***Changes in laws and/or regulations related to the Internet or changes in the Internet infrastructure itself may cause our business to suffer.***

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium and the use of email and social media for marketing or other consumer communications. In addition, certain government agencies or private organizations have begun to impose taxes, fees or other charges for accessing the Internet or for sending commercial email. These laws or changes could limit the growth of Internet-related commerce or communications which could result in a decline in the use of the Internet and the viability of Internet-based services such as ours and reduce the demand for our products.

The Internet has experienced, and is expected to continue to experience, significant user and traffic growth, which has, at times, caused user frustration with slow access and download times. If Internet activity grows faster than Internet infrastructure or if the Internet infrastructure is otherwise unable to support the demands placed on it, or if hosting capacity becomes scarce, our business growth may be adversely affected.

***U.S. federal legislation and the laws of many foreign countries impose certain obligations on the senders of commercial emails, which could minimize the effectiveness of our products, particularly our email marketing product, and establishes financial penalties for non-compliance, which could increase the costs of our business.***

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, establishes certain requirements for 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. The CAN-SPAM Act, among other things, obligates the sender of commercial emails to provide recipients with the ability to opt out of receiving future emails from the sender. In addition, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act. Some portions of these state laws may not be preempted by the CAN-SPAM Act. The ability of our customers' constituents to opt out of receiving commercial emails may minimize the effectiveness of our products. Moreover, non-compliance with the CAN-SPAM Act carries significant financial penalties. If we were found to be in violation of the CAN-SPAM Act, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email such as the laws of Canada and the United Kingdom, whether as a result of violations by our customers or if we were deemed to be directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our business, and our reputation would suffer.

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***If we are unable to protect our proprietary technology and other intellectual property rights, it will reduce our ability to compete for business.***

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products similar to our products, which could decrease demand for our solutions. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as licensing agreements, third-party nondisclosure agreements and other contractual provisions and technical measures, to protect our intellectual property rights. These protections may not be adequate to prevent our competitors from copying our solutions or otherwise infringing on our intellectual property rights. Existing laws afford only limited protection for our intellectual property rights and may not protect such rights in the event competitors independently develop solutions similar or superior to ours. In addition, the laws of some countries in which our solutions are or may be licensed do not protect our solutions and intellectual property rights to the same extent as do the laws of the United States.

To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information.

Source code, the detailed program commands for our software programs, is critical to our business. Although we take measures to protect our source code, unauthorized disclosure or reverse engineering of a significant portion of our source code could make it easier for third parties to compete with our products by copying functionality, which could adversely affect our business.

***If a third-party asserts that we are infringing its intellectual property, whether successful or not, it could subject us to costly and time-consuming litigation or expensive licenses, and our business may be harmed.***

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Third-parties may assert patent and other intellectual property infringement claims against us in the form of lawsuits, letters, or other forms of communication. We cannot anticipate all such claims or know with certainty whether our technology infringes the intellectual property rights of third-parties, as currently pending patent applications are not publicly available. We expect that the number of infringement claims in our market will increase as the number of solutions and competitors in our industry grows. These claims, whether or not successful, could:

- divert management's attention;
- result in costly and time-consuming litigation;
- require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all; or
- require us to redesign our solutions to avoid infringement.

We may be liable or alleged to be liable to third parties for software or content that we provide to our customers if the software or content violates a third party's intellectual property rights, or if our customers violate such rights by providing content using our solutions.

As a result, any third-party intellectual property claims against us could increase our expenses and adversely affect our business. In addition, many of our customer agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us resulting from an adverse ruling in any such claim. Even if we have not infringed any third-parties' intellectual property rights, we cannot be sure our legal defenses will be successful, and even if we are successful in defending against such claims, our legal defense could require significant financial resources and management's time, which could adversely affect our business.

***Our growth could strain our personnel and infrastructure resources, and if we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to successfully implement our business plan.***

Rapid growth in our headcount and operations may place a significant strain on our management, administrative, operational and financial infrastructure. Between January 1, 2010 and December 31, 2012, the number of our full-time equivalent employees increased from 484 to 1,248. We anticipate that additional growth will be required to address increases in our customer base, as well as expansion into new geographic areas.

Our success will depend in part upon the ability of our senior management to manage growth effectively. To do so, we must continue to hire, train and manage new employees as needed. To date, we have not experienced any significant problems as a result of the rapid growth in our headcount, other than occasional office space constraints. However, our anticipated future growth may place greater strains on our resources. For instance, if our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees as needed, or if we are not successful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. The additional headcount and capital investments we expect to add will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by offsetting expense reductions in the short term. If we fail to successfully manage our growth, we will be unable to execute our business plan.

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***We are dependent on our executive officers and other key personnel, and the loss of any of them may prevent us from implementing our business plan in a timely manner if at all.***

Our success depends largely upon the continued services of our executive officers. We are also substantially dependent on the continued service of our existing development personnel because of the complexity of our service and technologies. We do not have employment agreements with any of our development personnel that require them to remain our employees nor do the employment agreements we have with our executive officers require them to remain our employees and, therefore, they could terminate their employment with us at any time without penalty. We do not currently maintain key man life insurance on any of our executives, and such insurance, if obtained in the future, may not be sufficient to cover the costs of recruiting and hiring a replacement or the loss of an executive's services. The loss of one or more of our key employees could seriously harm our business.

***We may not be able to attract and retain the highly skilled employees we need to support our planned growth.***

To execute our business strategy, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for senior sales executives and engineers with high levels of experience in designing and developing software. We may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than us. In addition, in making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the stock options and awards they are to receive in connection with their employment. Significant volatility in the price of our stock may, therefore, adversely affect our ability to attract or retain key employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

***Because we conduct operations in foreign jurisdictions, which accounted for approximately 10% of our 2012 revenues, our business is susceptible to risks associated with international operations.***

Conducting international operations subjects us to new risks that we have not generally faced in the United States. These include:

- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings; and
- the burdens of complying with a wide variety of foreign laws and different legal standards.

The occurrence of any one of these risks could negatively affect our international operations and, consequently, our results of operations generally.

***Our debt covenants restrict our operational flexibility.***

Our revolving credit facility contains a number of operational covenants, which, among other things, impose certain limitations on us with respect to expansion of our lines of business, effecting mergers, investments and acquisitions, incurring additional indebtedness, paying dividends or distributions, repurchasing shares of our common stock, entering into guarantees, and incurring liens and encumbrances. Our indebtedness under the credit facility is secured by a lien on substantially all of our assets and of our subsidiaries, by a pledge of our and certain of our subsidiaries' stock and by a guarantee of our subsidiaries. If the amounts outstanding under the credit facility were accelerated due to an event of default, the lender could proceed against such available collateral by forcing the sale of all or some of these assets.

***We might require additional capital to support business growth, and this capital might not be available.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in further equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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***Economic and market conditions may adversely affect our business, financial condition and results of operations.***

Economic downturns, which have resulted in declines in corporate spending, decreases in consumer confidence and tightening in the credit markets, may adversely affect our financial condition and the financial condition and liquidity of our customers and suppliers. Among other things, these economic and market conditions may result in:

- reductions in the corporate budgets, including technology spending of our customers and potential customers;
- declines in demand for our solutions;
- decreases in collections of our customer receivables;
- insolvency of our key vendors and suppliers; and
- volatility in interest rates and decreases in investment income.

Any of these events, which are outside of our scope of control, would likely have an adverse effect on our business, financial condition, results of operations and cash flows.

***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

***Compliance with new regulations governing public company corporate governance and reporting is uncertain and expensive.***

Many new laws, regulations and standards have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices and have created uncertainty for public companies. These new laws, regulations and standards are subject to interpretations due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by varying regulatory bodies. This may cause continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our implementation of these reforms and enhanced new disclosures may result in increased general and administrative expenses and a significant diversion of management's time and attention from revenue-generating activities. Any unanticipated difficulties in implementing these reforms could result in material delays in complying with these new laws, regulations and standards or significantly increase our operating costs.

***Failure to maintain effective internal control over financial reporting and disclosure controls and procedures would have a material adverse effect on our business.***

The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In order to comply with Section 404 of the Sarbanes-Oxley Act's requirements relating to internal control over financial reporting, we incur substantial accounting expense and expend significant management time on compliance-related issues. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal controls over financial reporting that are deemed to be material, the market price of our stock may decline and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities.

**Risks Related to our Common Stock and the Securities Markets**

***JMI Equity's significant ownership interest dilutes the interests of our common stockholders, may discourage, delay or prevent a change in control of our company and grants important rights to JMI Equity.***

The 1,000,000 shares of Series A convertible preferred stock that we issued in February 2012 to JMI Equity Fund VI, L.P. (JMI Equity) were immediately convertible into shares of our common stock at an initial conversion rate of 3.0256 shares of common stock per share of Series A convertible preferred stock (subject to customary adjustments, and subject to increase if we fail to fulfill our obligation to redeem the preferred stock on February 24, 2017). The investment equates to an initial ownership interest of approximately 13%, assuming the full conversion of each share of preferred stock into the company's common stock. Any sales in the public market of the shares of common stock issuable upon such conversion after that date could adversely affect prevailing market prices of our common stock.

On February 24, 2017, we will be required to redeem each issued and outstanding share of Series A convertible preferred stock for \$77.30 per share from our legally available funds, or such lesser amount of shares as we may then redeem under Delaware law. The shares of preferred stock will vote on an as-converted basis with the common stock, voting together as a single class, provided that the holders of the preferred stock shall vote separately as a class on certain matters affecting the preferred stock. If any shares of preferred stock are outstanding on or after February 24, 2017, the holders of the preferred stock will have the right to vote separately as a class on additional actions by Vocus related to acquisitions, redemptions, dividends, capital stock, and indebtedness. In addition, pursuant to an Investor Rights Agreement with JMI Equity, the holders of the preferred stock have the right to nominate a director to the board of directors for as long as they hold 5% or more of our issued and outstanding capital stock (which nominee shall be the Series A Director for so long as the holders of preferred stock have the right to elect the Series A Director). These provisions, as well as other terms of the Series A convertible preferred stock, may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company.

There can be no assurance that the interests of JMI Equity or any subsequent holders of the Series A convertible preferred stock are or will be aligned with those of our other stockholders. Investor interests can differ from each other and from other corporate interests and it is possible that this significant stockholder may have interests that differ from management and those of other stockholders. If JMI Equity or any subsequent holders of the preferred stock were to sell, or otherwise transfer, all or a large percentage of their holdings, our stock price could decline and we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

***If securities analysts do not publish research or reports about our business or if they downgrade our stock, the price of our stock could decline.***

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. There are many large, well-established publicly traded companies active in our industry and market, which may mean it will be less likely that we receive widespread analyst coverage. Furthermore, if one or more of the analysts who do cover us downgrade our stock, our stock price would likely decline rapidly. If one or more of these analysts cease coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline.

***Volatility of our stock price could adversely affect stockholders.***

The market price of our common stock could fluctuate significantly as a result of:

- quarterly variations in our operating results;
- seasonality of our business cycle;
- interest rate changes;
- changes in the market's expectations about our operating results;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning our company or the cloud-based software industry in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends in our markets;
- changes in laws and regulations affecting our business;
- threatened or actual litigation;
- material announcements by us or our competitors including new product or service introductions and acquisitions of businesses, products, technologies or services;
- sales of substantial amounts of common stock by our directors, executive officers or significant stockholders or the perception that such sales could occur;
- any major change in our board of directors or management;
- economic conditions including a slowdown in economic growth and uncertainty in equity and credit markets; and
- general political conditions such as acts of war or terrorism.

In addition, the stock market in general, and the market for cloud-based companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

***Provisions in our amended and restated certificate of incorporation and bylaws or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our stock.***

Our amended and restated certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- provide that directors may only be removed "for cause" and only with the approval of 66 2/3 percent of our stockholders;
- require super-majority voting to amend our bylaws or specified provisions in our amended and restated certificate of incorporation;
- authorize the issuance of "blank check" preferred stock that our board of directors could issue to increase the number of outstanding shares and to discourage a takeover attempt;

- limit the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to adopt, amend, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company.

***Future sales, or the availability for sale, of our common stock may cause our stock price to decline.***

Our directors and officers hold shares of our common stock that they generally are currently able to sell in the public market. We have also registered shares of our common stock that are subject to outstanding stock options, or reserved for issuance under our stock award plan, which shares can generally be freely sold in the public market upon issuance. Moreover, from time to time, our executive officers and directors have established trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, for the purpose of effecting sales of our common stock. Sales of substantial amounts of our common stock in the public market could adversely affect the market price of our common stock and could materially impair our future ability to raise capital through offerings of our common stock.

**Item 1B. *Unresolved Staff Comments***

Not applicable.

**Item 2. *Properties***

Our corporate headquarters, including our principal administrative, marketing, sales, technical support and research and development facilities, are located in Beltsville, Maryland, where we lease approximately 118,000 square feet under an agreement that expires in 2023. Our content research division is located in College Park, Maryland where we lease approximately 7,300 square feet of space under an agreement that expires in 2020. We also currently occupy several domestic and international sales and service offices in California, North Carolina, Virginia, Washington, England, France and the Philippines, where we lease an aggregate of approximately 95,000 square feet under multiple leases, which have terms that expire at various times through 2017.

We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

**Item 3. *Legal Proceedings***

From time to time, we are named as a defendant in legal actions arising from our normal business activities. We are not currently subject to any material legal proceedings that in our opinion will have a material effect on our financial positions, operating results or cash flows.

**Item 4. *Mine Safety Disclosures***

Not applicable.

**PART II**

**Item 5. *Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Market for Common Stock**

Since December 7, 2005, our common stock has been listed on the NASDAQ Global Market under the symbol “VOCS.” Prior to such time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high and low closing sale prices of our common stock as reported by NASDAQ, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended December 31, 2011</b>		
First Quarter	\$28.33	\$22.85
Second Quarter	30.61	24.71
Third Quarter	32.67	16.51
Fourth Quarter	22.59	15.95
<b>Fiscal Year Ended December 31, 2012</b>		
First Quarter	\$24.19	\$12.32
Second Quarter	18.60	12.34
Third Quarter	20.45	16.48
Fourth Quarter	19.77	14.73

As of March 1, 2013, there were approximately 74 holders of record of our common stock. This figure does not reflect persons or entities that hold their stock in nominee or “street” name through various brokerage firms.

## Dividends

We have never declared or paid any cash dividends on our capital stock and do not expect to pay any cash dividends for the foreseeable future. We intend to retain any future earnings, if any, in the operation and expansion of our business. Any future determination to pay cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors deems relevant. In addition, the terms of the revolving credit facility that we entered into in February 2012 preclude us from paying cash dividends.

## Issuer Purchases of Equity Securities

In November 2008, our Board of Directors authorized a stock repurchase program for up to \$30.0 million of our shares of common stock, and in August 2011 authorized up to an additional \$30.0 million. The shares may be purchased from time to time in the open market, and there is no expiration date specified for the program. During the year ended December 31, 2012, we did not purchase any shares of our common stock under the program. As of March 1, 2013, \$20.0 million remained available for purchases under the program; however, the terms of our revolving credit facility limit the dollar value of shares that we may purchase.

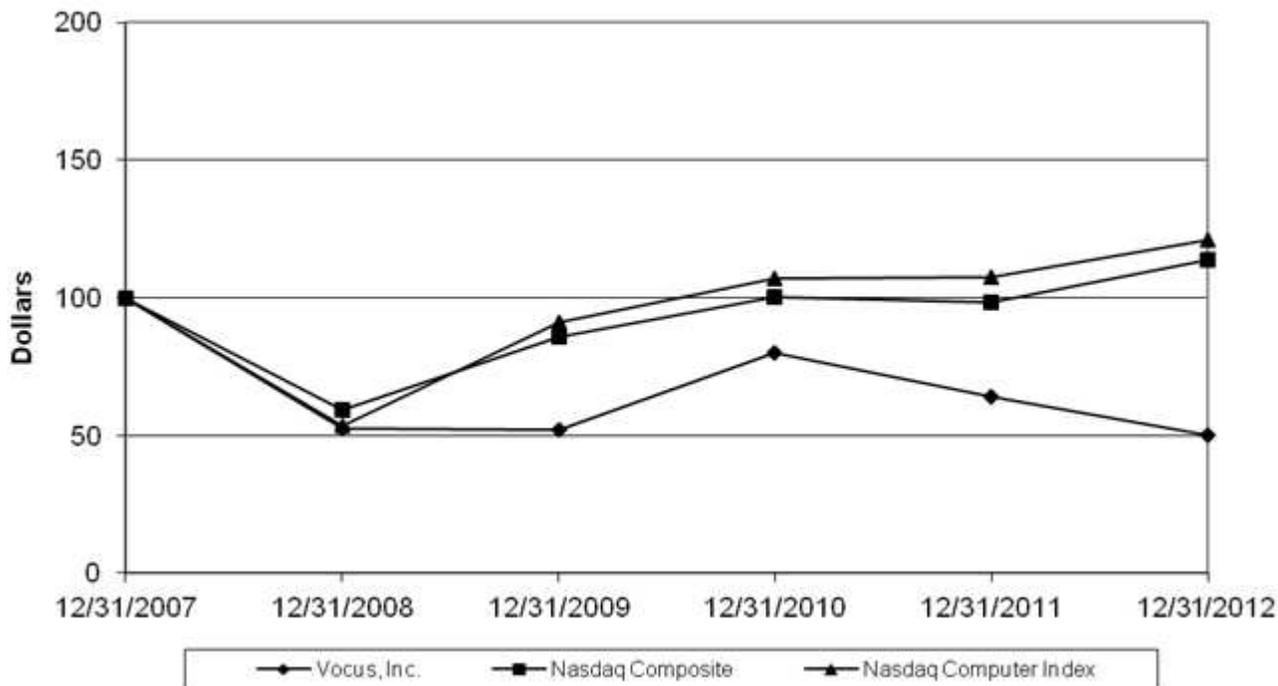
The following table sets forth a summary of our purchases of our common stock during the three months ended December 31, 2012, of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

	Total Number of		Total Number of Shares Purchased as Part of Publicly	Maximum Dollar Value of Shares That May Yet be Purchased Under the Plan
	Shares Purchased	Average Price Paid per Share	Announced Plan	
October 1 – October 31				
Share repurchase program(1)	—	—	—	\$20,000,520
Employee transactions(2)	—	—	—	N/A
November 1 – November 30				
Share repurchase program(1)	—	—	—	\$20,000,520
Employee transactions(2)	—	—	—	N/A
December 1 – December 31				
Share repurchase program(1)	—	—	—	\$20,000,520
Employee transactions(2)	1,598	\$ 17.76	—	N/A

- (1) All shares were purchased through our publicly announced share repurchase program. On November 25, 2008, our Board of Directors authorized us to purchase up to \$30.0 million shares of our common stock. On August 18, 2011, our Board of Directors authorized us to purchase up to an additional \$30.0 million shares of our common stock under the share repurchase program. There is no expiration date specified for the program; however, the terms of our revolving credit facility limit the dollar value of shares that we may purchase.
- (2) All shares were delivered to us by employees to satisfy the minimum statutory tax withholding obligations with respect to the taxable income recognized by these employees upon the vesting of their stock awards.

## Performance Graph

The following line graph compares cumulative total stockholder returns for the period December 31, 2007 through December 31, 2012 for (1) our common stock; (2) the Nasdaq Composite Index; and (3) the Nasdaq Computer Index. The graph assumes an investment of \$100 on December 31, 2007. The calculations of cumulative stockholder return on the Nasdaq Composite Index and the Nasdaq Computer Index include reinvestment of dividends, but the calculation of cumulative stockholder return on our common stock does not include reinvestment of dividends because we did not pay dividends during the measurement period. The performance shown is not necessarily indicative of future performance.



	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Vocus, Inc.	\$ 100.00	\$ 52.74	\$ 52.13	\$ 80.10	\$ 63.97	\$ 50.33
Nasdaq Composite	\$ 100.00	\$ 59.46	\$ 85.55	\$ 100.02	\$ 98.22	\$ 113.85
Nasdaq Computer Index	\$ 100.00	\$ 53.31	\$ 91.06	\$ 106.95	\$ 107.47	\$ 120.88

#### Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report. The consolidated statement of operations data for the years ended December 31, 2010, 2011 and 2012, and the consolidated balance sheet data at December 31, 2011 and 2012, are derived from audited consolidated financial statements included elsewhere in this report. The consolidated statement of operations data for the years ended December 31, 2008 and 2009, and the consolidated balance sheet data at December 31, 2008, 2009 and 2010 are derived from audited financial statements not included in this report. The historical results are not necessarily indicative of results to be expected in any future period.

	Year Ended December 31,				
	2008	2009	2010(2)	2011(2)	2012(2)
(in thousands, except per share data)					
<b>Consolidated Statement of Operations:</b>					
Revenues	\$77,520	\$84,579	\$96,760	\$114,874	\$170,804
Cost of revenues(1)	14,675	15,461	18,932	21,857	33,749
Gross profit	62,845	69,118	77,828	93,017	137,055
Operating expenses:(1)					
Sales and marketing	35,140	41,123	49,620	57,543	97,873
Research and development	4,998	4,675	5,891	7,561	13,272
General and administrative	20,356	21,018	23,587	30,129	40,651
Amortization of intangible assets	2,651	1,926	2,298	2,021	7,157
Total operating expenses	63,145	68,742	81,396	97,254	158,953
Income (loss) from operations	(300)	376	(3,568)	(4,237)	(21,898)
Interest and other income (expense)	2,109	454	71	279	(266)
Income (loss) before provision (benefit) for income taxes	1,809	830	(3,497)	(3,958)	(22,164)
Provision (benefit) for income taxes	(5,119)	2,854	178	10,619	1,427
Net income (loss)	\$ 6,928	\$ (2,024)	\$ (3,675)	\$ (14,577)	\$ (23,591)
Net income (loss) per share, basic	\$ 0.38	\$ (0.11)	\$ (0.21)	\$ (0.78)	\$ (1.21)
Net income (loss) per share, diluted	\$ 0.37	\$ (0.11)	\$ (0.21)	\$ (0.78)	\$ (1.21)

(1) Cost of revenues and operating expenses include stock-based compensation expense from equity awards in the following amounts:

	Year Ended December 31,				
	2008	2009	2010 (in thousands)	2011	2012
Cost of revenues	\$ 1,262	\$ 1,453	\$ 1,590	\$ 1,575	\$ 1,514
Sales and marketing	3,212	3,753	3,253	4,126	4,299
Research and development	769	989	1,506	2,079	2,646
General and administrative	5,929	6,697	6,453	7,135	6,413
Total	<u>\$11,172</u>	<u>\$12,892</u>	<u>\$12,802</u>	<u>\$14,915</u>	<u>\$14,872</u>

(2) The consolidated statements of operations include financial results in the relevant periods since the acquisition dates of Datapresse and BDL Media in April 2010, HARO in June 2010, Engine140 in December 2010, North Social in February 2011 and iContact in February 2012. Please refer to Note 3, *Business Combinations* of the Notes to Consolidated Financial Statements for further discussion of our recent acquisitions.

	December 31,				
	2008	2009	2010 (in thousands)	2011	2012
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and investments	\$ 87,187	\$104,669	\$100,414	\$108,179	\$ 34,091
Working capital (deficit)	58,427	70,594	60,085	53,662	(32,632)
Total assets	139,979	159,240	173,880	195,743	292,814
Total debt	373	245	344	1,030	1,605
Total deferred revenue	42,854	47,750	56,576	62,997	79,333
Stockholders' equity	91,408	104,381	104,434	102,721	100,779

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in "Risk Factors" in Item 1A.

### Overview

We are a leading provider of cloud marketing software that helps businesses attract, engage and retain customers. As consumers' buying behavior is increasingly influenced by online information and social networks, our software helps companies reach and influence buyers across social networks, online and through the media. Our cloud marketing solution addresses key areas of digital marketing, including social media marketing, search marketing, email marketing and publicity. Our sales organization is focused on adding new customers, renewing customer subscriptions and expanding relationships with existing customers. We deliver our solutions over the Internet using a secure, scalable application and system architecture that allows our customers to quickly deploy and adopt our software.

As of December 31, 2012, we had 16,494 active subscription customers who purchased our products and services. These customers represent a wide variety of industries, including financial and insurance, technology, healthcare and pharmaceutical and retail and consumer products, as well as government agencies, not-for-profit organizations and educational institutions. We define active subscription customers as unique customer accounts that have an annual active subscription and have not been suspended for non-payment.

We plan to expand our cloud marketing suite, expand our direct sales force, increase alternate channel distribution and selectively pursue strategic acquisitions. As a result, we plan to hire additional personnel, particularly in sales and marketing, expand our domestic selling and marketing activities and develop our operational and financial systems to manage a growing business.

### Acquisitions

#### iContact

On February 24, 2012, we acquired all of the outstanding shares of iContact Corporation (iContact), a provider of cloud-based email and social marketing software that enables organizations to create and publish professional-quality emails to engage, educate and retain customers. The acquisition provided an email capability component to our cloud marketing suite. The purchase price consisted of approximately \$89.8 million of cash, a promissory note in the amount of \$669,000, 401,672 shares of our common stock with a deemed value at issuance of approximately \$9.1 million and 1.0 million shares of our newly-created Series A convertible preferred stock, with a deemed value at issuance

of \$77.5 million, aggregating approximately \$167.1 million of total consideration, net of \$10.0 million cash acquired. The acquisition was accounted for under the purchase method of accounting. The consolidated financial statements include the operating results of iContact from the acquisition date. We incurred acquisition-related transaction costs of \$2.9 million and paid severance costs of \$2.1 million for the year ended December 31, 2012. We recorded \$5.6 million of net tangible assets, \$32.6 million of identifiable intangible assets and \$138.9 million of goodwill which is not deductible for tax purposes.

### ***North Social***

On February 24, 2011, we acquired substantially all of the assets and assumed certain liabilities of North Venture Partners, LLC (North Social), a provider of Facebook applications that enable users to create, manage and promote their business on Facebook. The acquisition broadened our social media solution. The purchase price at the acquisition date consisted of approximately \$7.0 million of cash paid at closing and \$5.1 million of contingent consideration for the achievement of certain financial milestones within the following 24 months. The contingent consideration could have resulted in additional payments of up to \$15.0 million. We recorded \$101,000 of identifiable intangible assets, \$11.9 million of goodwill which is deductible for tax purposes and \$78,000 of other net tangible assets. The fair value of the contingent consideration was estimated using probability assessments of expected future cash flows over the period in which the obligation is to be settled and applied a discount rate that appropriately captures a market participant's view of the risk associated with the obligation. During the years ended December 31, 2011 and 2012, the fair value of the contingent consideration was adjusted based on an updated assessment of the probability of achievement of the performance metrics and the discount factor reflecting the passage of time. The additional expense of \$1.9 million and \$1.2 million was included in general and administrative expenses in the consolidated statements of operations for the years ended December 31, 2011 and 2012, respectively. The fair value of the contingent consideration liability as of December 31, 2011 and 2012 was \$6.9 million and \$1.1 million, respectively. In 2012, we paid \$7.0 million of the contingent consideration for the achievement of certain financial milestones. Acquisition-related costs incurred for the acquisition were not material.

### ***Datapresse***

On April 16, 2010, we acquired all of the outstanding shares of Data Presse SAS (Datapresse), a provider of media content and cloud-based public relations software in France which expanded our presence in Europe. Datapresse's cloud-based software complements our existing cloud marketing suite. The purchase consideration consisted of approximately \$9.7 million of cash paid at closing and \$572,000 of contingent consideration for the achievement of certain financial metrics for the twelve month period ending April 30, 2011. We recorded \$4.7 million of identifiable intangible assets and \$5.9 million of goodwill. During the years ended December 31, 2010 and 2011, the fair value of the contingent consideration was adjusted based on the actual performance from the acquisition date through April 30, 2011. The additional expense was not material for the years ended December 31, 2010 and 2011. During 2011, we made payments in the amount of \$715,000 which represented the full settlement of the contingent consideration liability. We incurred acquisition-related costs of \$747,000 in 2010, which were included in general and administrative expenses.

### ***Other Acquisitions***

In 2010, we completed three additional acquisitions of privately-held entities primarily to expand our product offerings and enhance our technology base. These acquisitions were not material individually or in the aggregate. The entities were acquired for a total of approximately \$3.2 million in cash and \$811,000 of contingent consideration for the achievement of revenue targets in 2010 and 2011. We recorded approximately \$1.4 million of identifiable intangible assets, \$1.8 million of goodwill that is not deductible for tax purposes and \$1.6 million of goodwill that is deductible for tax purposes. In connection with one of the acquisitions, we identified an uncertain tax position, and, as a result recorded \$758,000 in other liabilities in 2010. During the years ended December 31, 2010 and 2011, the fair value of the contingent consideration was adjusted based on actual performance. The additional expense of \$504,000 was included in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2010. The fair value adjustment to contingent consideration was not material for the year ended December 31, 2011. We made payments in the amount of \$699,000 related to the contingent consideration in 2011 and final payments of \$606,000 in 2012. Acquisition-related costs incurred for these acquisitions were not material.

For more information, please refer to Note 3, *Business Combinations* of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K.

### **Sources of Revenues**

We derive our revenues from subscription agreements and related services and from news distribution services. Our subscription agreements contain multiple service elements and deliverables, which generally include use of our cloud-based software, news distribution services, hosting services, content and content updates and customer support and may also include implementation and training services. The typical term of our subscription agreements is one year; however, our customers may purchase subscriptions with monthly or multi-year terms. We separately invoice our customers in advance of their subscription, with payment terms that generally require our customers to pay us within 30 days of invoice. Our subscription agreements typically are non-cancelable, though customers have the right to terminate their agreements for cause if we materially breach our obligations under the agreement. Our subscription agreements may include amounts that are not yet contractually billable to customers, and any such unbilled amounts are not recorded in deferred revenue until invoiced.

Additionally, we derive revenue on a per-transaction basis from our news distribution services. We generally receive payment in advance of the online distribution of the news release.

Professional services revenue consists primarily of data migration, custom development and training. Our professional service engagements are billed on a fixed fee basis with payment terms requiring our customers to pay us generally within 30 days of invoice.

### **Cost of Revenues and Operating Expenses**

*Cost of Revenues.* Cost of revenues has consisted primarily of compensation for training, editorial and support personnel, hosting infrastructure, press release distribution, acquisition, maintenance and amortization of the information database, amortization of purchased technology from business combinations, amortization of capitalized software development costs, depreciation associated with computer equipment and software and allocated overhead. We allocate overhead expenses such as employee benefits, computer and office supplies, management information systems and depreciation for computer equipment based on headcount. As a result, indirect overhead expenses are included in cost of revenues and each operating expense category.

We believe content is an integral part of our solution and provides our customers with access to broad, current and relevant information critical to their marketing efforts. We expect to continue to make investments in both our own content as well as content acquired from third-parties and to continue to enhance our proprietary information database and enhance our news monitoring and social media monitoring services. We expect in 2013, cost of revenues will increase in absolute dollars but will remain flat or decrease slightly as a percentage of revenues.

*Sales and Marketing.* Sales and marketing expenses are our largest operating expense. Sales and marketing expenses consist primarily of compensation for our sales and marketing personnel, sales commissions and incentives, marketing programs, including lead generation, promotional events, webinars and other brand building expenses and allocated overhead. We expense our sales commissions at the time a subscription agreement is executed by the customer, and we recognize substantially all of our revenues ratably over the term of the corresponding subscription agreement. As a result, we incur sales expense before the recognition of the related revenues.

We plan to continue to invest in sales and marketing to add new customers and increase sales to our existing customers. Such investments will include adding sales personnel and expanding our marketing activities to continue to build brand awareness and generate additional sales leads. We expect in 2013, sales and marketing expenses will increase in absolute dollars but will remain flat as a percentage of revenues.

*Research and Development.* Research and development expenses consist primarily of compensation for our software application development personnel and allocated overhead. We have historically focused our research and development efforts on increasing the functionality and enhancing the ease of use of our cloud-based software. Because of our hosted solutions, we are able to provide our customers with a single, shared version of our most recent application, which enables us to have relatively low expenses as compared to traditional enterprise software business models. We expect that in 2013, research and development expenses will decrease in absolute dollars and as a percentage of revenues.

*General and Administrative.* General and administrative expenses consist of compensation and related expenses for executive, finance, legal, human resources and administrative personnel, as well as fees for legal, accounting and other consulting services, including acquisition-related expenses, third-party payment processing and credit card fees, facilities rent, other corporate expenses, fair value adjustments to contingent consideration and allocated overhead. We expect that in 2013, general and administrative expenses will increase in absolute dollars but will remain flat as a percentage of revenues.

*Amortization of Intangible Assets.* Amortized intangible assets consist of customer relationships and trade names acquired in business combinations.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and include the accounts of Vocus, Inc. and our wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to the allowance for doubtful accounts, software development costs, useful lives of property, equipment and software, intangible assets and goodwill, contingent liabilities, self-insurance, revenue recognition, fair value of stock-based awards and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

We believe that of our significant accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies* of the Notes to the Consolidated Financial Statements included elsewhere in this Form 10-K, the following accounting policies involve a greater degree of judgment or complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

*Revenue Recognition.* We recognize revenues when there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fee is probable and the amount of the fees to be paid by the customer is fixed or determinable. We allocate consideration to each deliverable in our multiple element arrangements based on the relative selling prices and recognize revenue as the respective services are delivered or performed.

Our separate units of accounting consist of subscription services, news distribution services and professional services. Our subscription

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agreements generally include the use of our cloud-based software, hosting services, content and content updates and customer support. Our subscription agreements do not provide customers the right to take possession of the software at any time.

We also distribute individual news releases to the Internet which are indexed by major search engines and distributed directly to various news sites, journalists and other key constituents. We recognize revenue on a per-transaction basis when the press releases are made available to the public.

Our professional services consist primarily of data migration, custom development and training. Our cloud-based software does not require significant modification and customization services.

We established vendor-specific objective evidence (VSOE) of selling price for certain of our news distribution services as the selling price for a substantial majority of stand-alone sales falls within a narrow range around the median selling price. We determined third-party evidence (TPE) of selling price is not available for any of our services due to differences in the features and functionality compared to competitor's products. Therefore, we use the estimated selling prices (ESP) for the remaining deliverables by analyzing multiple factors such as historical pricing trends, discounting practices, gross margin objectives and other market conditions.

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

Prior to January 1, 2011, all elements in our multiple element subscription agreements were considered a single unit of accounting, and accordingly, we recognized all associated fees over the subscription period, which is typically one year. We determined that we did not have objective and reliable evidence of the fair value of the undelivered elements in our arrangements and, as a result, subscription revenues were recognized ratably over the term of the subscription. Professional services sold separately from a subscription arrangement were recognized as the services were performed.

The Financial Accounting Standards Board (FASB) amended the accounting guidance for multiple-deliverable revenue arrangements to:

- provide updates on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and how the consideration should be allocated;
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and
- require an entity to allocate revenue in an arrangement using ESP of each deliverable if it does not have VSOE or TPE of selling price.

On January 1, 2011, we adopted the provisions of the new accounting guidance for multiple-deliverable revenue arrangements entered into or materially modified on or after January 1, 2011 that contain subscription services sold with news distribution services or professional services on a prospective basis and determined the adoption did not have a material impact on our financial statements.

*Sales Commissions.* Sales commissions are expensed when a subscription agreement is executed by the customer. As a result, we incur sales expense before the recognition of the related revenues.

*Stock-Based Compensation.* We recognize compensation expense for equity awards based on the fair value of the award and on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest. We apply estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. We use the quoted closing market price of our common stock on the grant date to measure the fair value of our restricted stock awards. We use the Black-Scholes option pricing model to measure the fair value of our option awards. We use the daily historical volatility of our stock price over the expected life of the options to calculate the expected volatility. The expected term of option awards is determined using a combination of historical exercise data with expected future exercise patterns using the average midpoint between vesting and the contractual term for outstanding awards. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. We have not paid dividends and do not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

*Business Combinations.* We have completed acquisitions of businesses that have resulted in the recording of goodwill and identifiable definite-lived intangible assets. Definite-lived intangible assets consist of acquired customer relationships, trade names and purchased technology. Definite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives ranging from two to seven years. We recognize all of the assets acquired, liabilities assumed and contingent consideration at their fair values on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred in general and administrative expenses in the consolidated statements of operations. Accounting for these acquisitions requires us to make determinations about the fair value of assets acquired, useful lives for definite-lived tangible and intangible assets, and liabilities assumed that involve estimates and judgments.

*Goodwill and Long-Lived Assets.* Goodwill represents the excess of the cost of an acquired entity over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but rather is assessed for impairment at least annually. We perform our annual impairment assessment on November 1, or whenever events or circumstances indicate impairment may have occurred. We operate under one reporting unit, and as a result, evaluate goodwill impairment based on our fair value as a whole.

In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of

events or circumstances, it is more likely than not that the fair value of the reporting unit is greater than its carrying value, then performing the two-step impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any of its reporting units, and proceed directly to the use of the two-step impairment test.

When assessing goodwill for impairment, we use an income approach based on discounted cash flows to determine the fair value of our reporting unit. Our cash flow assumptions consider historical and forecasted revenue, operating costs and other relevant factors which are consistent with the plans used to manage our operations. Based on the results of our most recent annual assessment performed on November 1, 2012, we concluded that the fair value of its reporting unit exceeded its carrying amount. No events or circumstances occurred from the date of the assessment through December 31, 2012 that would impact this conclusion.

We assess impairment of definite-lived intangible and other long-lived assets when events or changes in circumstances indicate that the carrying value of an asset may no longer be fully recoverable. We determine the impairment, if any, by comparing the carrying value of the assets to future undiscounted net cash flows expected to be generated by the related assets. An impairment charge is recognized to the extent the carrying value exceeds the estimated fair value of the assets. There were no impairment charges for long-lived assets for the year ended December 31, 2010. Impairment charges for long-lived assets for the years ended December 31, 2011 and 2012 were \$100,000 and \$709,000, respectively.

*Income taxes.* We use the asset and liability method whereby deferred tax assets and liabilities are recognized for deductible temporary differences between the respective reported amounts and tax bases of assets and liabilities, as well as for operating losses and tax-credit carryforwards. Net deferred tax assets are reduced by the valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In the fourth quarter of 2011, based on recent operating results and our current projections of future losses, we established a full valuation allowance on our U.S. federal and state net deferred tax assets as we concluded that it is more likely than not that we will not realize the benefits of our deferred tax assets. We have historically maintained a full valuation allowance on net deferred tax assets of certain of our foreign subsidiaries because we determined that it is more likely than not that we will not realize the benefits of our foreign deferred tax assets.

Our estimates related to liabilities for uncertain tax positions require us to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If we determine it is more likely than not that a tax position will be sustained based on its technical merits, we record the impact of the position in our consolidated financial statements at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. Our estimates are updated at each reporting date based on the facts, circumstances and information available. We are also required to assess at each reporting date whether it is reasonably possible that any significant increases or decreases to our unrecognized tax benefits will occur during the next twelve months. We file income tax returns in U.S. federal jurisdictions and various state and foreign jurisdictions and are subject to U.S. federal, state, and foreign tax examinations for years ranging from 2003 to 2012.

## Results of Operations

The following tables set forth selected consolidated statements of operations data for each of the periods indicated as a percentage of total revenues.

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Revenues	100%	100%	100%
Cost of revenues	<u>20</u>	<u>19</u>	<u>20</u>
Gross profit	80	81	80
Operating expenses:			
Sales and marketing	51	50	57
Research and development	6	7	8
General and administrative	25	26	24
Amortization of intangible assets	<u>2</u>	<u>2</u>	<u>4</u>
Total operating expenses	84	85	93
Loss from operations	(4)	(4)	(13)
Interest and other income (expense), net	—	—	—
Loss before provision for income taxes	(4)	(4)	(13)
Provision for income taxes	<u>—</u>	<u>9</u>	<u>1</u>
Net loss	<u>(4)%</u>	<u>(13)%</u>	<u>(14)%</u>

### *Years Ended December 31, 2012 and 2011*

*Revenues.* Revenues for 2012 were \$170.8 million, an increase of \$55.9 million, or 49%, over revenues of \$114.9 million for 2011. The increase in revenue was primarily due to incremental revenue from the acquisition of iContact of \$41.4 million for the year ended December 31, 2012, net of the fair value adjustment of \$2.2 million and to an increase in the number of total active subscription customers to 16,494 as of

December 31, 2012 from 11,907 as of December 31, 2011. Revenue growth from the increase in active subscription customers, excluding revenue from the acquisition, was \$14.6 million. Total deferred revenue at December 31, 2012 was \$79.3 million, representing an increase of \$16.3 million, or 26%, over total deferred revenue of \$63.0 million at December 31, 2011.

*Cost of Revenues.* Cost of revenues for 2012 was \$33.7 million, an increase of \$11.8 million, or 54%, over cost of revenues of \$21.9 million for 2011. The increase in cost of revenues was due to an increase of \$4.6 million in employee related costs from additional personnel, including increases in headcount from our acquisition of iContact, \$3.4 million in amortization of technology primarily from our acquisition of iContact, \$1.7 million in contracted labor costs, \$763,000 in hosting facility fees and \$298,000 in third-party license and royalty fees for content. We had 298 full-time employee equivalents in our professional and other support services group at December 31, 2012, compared to 210 full-time employee equivalents at December 31, 2011.

*Sales and Marketing Expenses.* Sales and marketing expenses for 2012 were \$97.9 million, an increase of \$40.4 million, or 70%, over sales and marketing expenses of \$57.5 million for 2011. The increase was primarily due to an increase of \$12.0 million in employee related costs from additional sales personnel, including increases in headcount from our acquisition of iContact, \$691,000 in severance costs for iContact personnel, \$4.8 million in sales commissions and incentive compensation and \$17.7 million in marketing program costs, primarily for iContact. We had 789 full-time sales and marketing employee equivalents at December 31, 2012, compared to 446 full-time employee equivalents at December 31, 2011.

*Research and Development Expenses.* Research and development expenses for 2012 were \$13.3 million, an increase of \$5.7 million, or 76%, compared to research and development expenses of \$7.6 million for 2011. The increase in research and development was primarily due to an increase of \$3.2 million in employee-related costs from additional personnel, including increases in headcount from our acquisition of iContact, \$637,000 in severance costs for iContact personnel and \$567,000 in stock-based compensation. For the years ended 2012 and 2011, we capitalized \$175,000 and \$258,000, respectively, of research and development employee-related costs for internally developed software. We had 63 full-time employee equivalents in research and development at December 31, 2012, compared to 43 full-time employee equivalents at December 31, 2011.

*General and Administrative Expenses.* General and administrative expenses for 2012 were \$40.7 million, an increase of \$10.6 million, or 35%, over general and administrative expenses of \$30.1 million for 2011. The increase in general and administrative expenses was primarily due to increases of \$1.8 million in employee-related costs from additional personnel, including increases in headcount from our acquisition of iContact, \$691,000 in severance costs for iContact personnel, \$2.9 million in non-recurring professional fees and transaction costs for the acquisition of iContact, \$1.7 million increase in credit card fees and \$5.0 million in rent and facility costs and depreciation relating to the relocation of our headquarters in 2011 and expansion of certain of our other offices in 2012 in addition to rent from our acquisition of iContact, offset by decreases of \$722,000 in stock-based compensation and \$765,000 in expense related to the fair value adjustments of contingent consideration for acquisitions. We had 98 full-time employee equivalents in our general and administrative group at December 31, 2012, compared to 80 full-time employee equivalents at December 31, 2011.

*Amortization of Intangible Assets.* Amortization of intangible assets for 2012 was \$7.2 million, an increase of \$5.2 million, or 254%, compared to amortization of intangible assets of \$2.0 million for 2011. The increase in amortization is primarily attributable to the intangible assets related to the acquisition of iContact.

*Other Income (Expense).* Other expense for 2012 was \$266,000, an increase of \$545,000, or 195%, compared to other income of \$279,000 for 2011. The increase is primarily due to changes in foreign currency exchange gains and losses and interest expense from fees for our revolving credit facility.

*Provision for Income Taxes.* The provision for income taxes for 2012 was \$1.4 million, a decrease of \$9.2 million, or 87%, compared to \$10.6 million for 2011. The decrease primarily relates to the establishment of the valuation allowance against our U.S. deferred tax assets in 2011. Our effective tax rate for 2012 differs from the U.S. federal statutory rates primarily due to operating losses in U.S. and foreign jurisdictions for which no tax benefit is currently available, an increase in a U.S. deferred tax liability that cannot serve as a source of taxable income for the recognition of a deferred tax asset, state income taxes and certain other non-deductible expenses.

Our effective tax rate for 2011 differed from the U.S. federal statutory rates due to non-deductible stock-based compensation, operating losses in foreign jurisdictions for which no tax benefit is currently available and, to a lesser extent, state income taxes and certain other non-deductible expenses.

### ***Years Ended December 31, 2011 and 2010***

*Revenues.* Revenues for 2011 were \$114.9 million, an increase of \$18.1 million, or 19%, over revenues of \$96.8 million for 2010. The increase in revenues was primarily due to the increase in the number of total active subscription customers to 11,907 as of December 31, 2011 from 8,574 as of December 31, 2010. Total revenue from active subscription customers through businesses acquired in 2010 and 2011 contributed \$3.2 million of incremental revenue in 2011. The remaining increase in active subscription customers was the result of additional sales and marketing personnel focused on acquiring new customers and renewing exiting customers. Revenue growth from the increase in active subscription customers, excluding revenue from acquired companies, was \$15.0 million. Total deferred revenue at December 31, 2011 was \$63.0 million, representing an increase of \$6.4 million, or 11%, over total deferred revenue of \$56.6 million at December 31, 2010.

*Cost of Revenues.* Cost of revenues for 2011 was \$21.9 million, an increase of \$3.0 million, or 15%, over cost of revenues of \$18.9 million for 2010. The increase in cost of revenues was due to an increase of \$932,000 in employee related costs, \$957,000 in third-party

license and royalty fees for content and \$731,000 in amortization and depreciation primarily related to the launch of our social media product, acquired technologies from business combinations and from server expansions and upgrades completed in 2011. We had 210 full-time employee equivalents in our professional and other support services group at December 31, 2011, compared to 208 full-time employee equivalents at December 31, 2010.

*Sales and Marketing Expenses.* Sales and marketing expenses for 2011 were \$57.5 million, an increase of \$7.9 million, or 16%, over sales and marketing expenses of \$49.6 million for 2010. The increase was primarily due to an increase of \$4.1 million in employee related costs from additional personnel, \$1.1 million in sales commissions and incentive compensation, \$786,000 in marketing program costs and \$873,000 in stock-based compensation. We had 446 full-time sales and marketing employee equivalents at December 31, 2011, compared to 334 full-time employee equivalents at December 31, 2010.

*Research and Development Expenses.* Research and development expenses for 2011 were \$7.6 million, an increase of \$1.7 million, or 28%, compared to research and development expenses of \$5.9 million for 2010. The increase in research and development was primarily due to an increase of \$477,000 in employee-related costs and \$573,000 in stock-based compensation. For the years ended 2011 and 2010, we capitalized \$258,000 and \$511,000, respectively, of research and development employee-related costs for internally developed software. We had 43 full-time employee equivalents in research and development at December 31, 2011, compared to 46 full-time employee equivalents at December 31, 2010.

*General and Administrative Expenses.* General and administrative expenses for 2011 were \$30.1 million, an increase of \$6.5 million, or 28%, over general and administrative expenses of \$23.6 million for 2010. The increase in general and administrative expenses was primarily due to increases of \$1.5 million in employee-related costs, \$1.4 million in rent and facility costs relating to the expansion and relocation of certain of our offices and headquarters, \$1.4 million of expense related to the fair value adjustment of contingent consideration for acquisitions, \$682,000 in stock-based compensation and \$326,000 in transaction costs from the termination of a potential acquisition. We had 80 full-time employee equivalents in our general and administrative group at December 31, 2011, compared to 67 full-time employee equivalents at December 31, 2010.

*Amortization of Intangible Assets.* Amortization of intangible assets for 2011 was \$2.0 million, a decrease of \$277,000, or 12%, compared to amortization of intangible assets of \$2.3 million for 2010. The decrease in amortization is primarily related to certain intangible assets from the acquisition of PRWeb in 2006 that were fully amortized in the third quarter of 2011, partially offset by increases in amortization of acquired intangible assets from our 2010 and 2011 business acquisitions.

*Other Income (Expense).* Other income for 2011 was \$279,000, an increase of \$208,000, or 293%, compared to \$71,000 for 2010, primarily due to changes in foreign currency exchange gains and losses.

*Provision for Income Taxes.* The provision for income taxes for 2011 was \$10.6 million, an increase of \$10.4 million, or 587%, compared to the provision for income taxes of \$178,000 for 2010. The increase primarily relates to the establishment of the valuation allowance against our U.S. deferred tax assets. Our effective tax rate for 2011 differs from the U.S. federal statutory rates primarily due to the establishment of the valuation allowance against our U.S. deferred tax assets and, to a lesser extent, state income taxes and certain non-deductible expenses, including stock-based compensation and operating losses in foreign jurisdictions for which no tax benefit is currently available.

Our effective tax rate for 2010 differs from the U.S. federal statutory rates due to certain non-deductible expenses, including stock-based compensation, operating losses in foreign jurisdictions for which no tax benefit is currently available and, to a lesser extent, state income taxes.

## **Liquidity and Capital Resources**

As of December 31, 2012, our principal sources of liquidity were cash and cash equivalents totaling \$32.1 million, investments totaling \$2.0 million and net accounts receivable totaling \$29.8 million. Our cash equivalents and investments primarily consisted of money market funds and certificates of deposit. Cash, cash equivalents and investments held by our international operations totaled \$9.5 million and \$10.2 million at December 31, 2011 and 2012, respectively. Based on our business plan, we expect that cash held overseas will continue to be used for our international operations and therefore do not anticipate repatriating these funds. If we were to repatriate these amounts, we do not believe that the resulting withholding taxes payable would have a material impact on our liquidity.

*Operating Activities.* Net cash provided by operating activities for the year ended December 31, 2012 was \$18.8 million, reflecting a net loss of \$23.6 million, non-cash charges for depreciation and amortization of \$15.8 million, stock-based compensation of \$14.9 million, a net change of \$7.8 million in accounts receivable and deferred revenue due to our acquisitions and growth in our subscription agreements invoiced in 2012. Net cash provided by operating activities is also impacted by changes in other working capital accounts in the ordinary course of business.

*Investing Activities.* Net cash used in investing activities for the year ended December 31, 2012 was \$76.9 million, which primarily resulted from the acquisition of iContact of \$79.8 million and investments in property, equipment and software of \$5.1 million, offset by net sales of investments of \$7.9 million.

*Financing Activities.* Net cash used in financing activities for the year ended December 31, 2012 was \$8.4 million which primarily resulted from our purchase of 143,789 shares of our common stock at an aggregate cost of \$3.1 million and \$5.2 million for payments of contingent cash consideration for certain of our 2010 and 2011 business acquisitions for the portion of the fair value of the liability at each respective acquisition date.

We have various non-cancelable operating leases, primarily related to office real estate, that expire through 2023 and generally contain renewal options for up to five years. We have an irrevocable letter of credit in favor of our landlord for our headquarters in Maryland in the amount of \$714,000. The letter of credit does not require a compensating balance and is active through May 2023. In accordance with the terms of the lease agreement, we are permitted to reduce the letter of credit by approximately \$119,000 annually for each of the first five years commencing May 2012. As of December 31, 2012, the outstanding balance was \$595,000 and no amounts had been drawn against it. We also established two letters of credit in favor of our principal landlord in the United Kingdom. The irrevocable letters of credit are \$563,000 in the aggregate, do not require a compensating balance and are active through 2016. As of December 31, 2012, the outstanding balances were \$570,000 in the aggregate, and no amounts have been drawn against them. In March 2012, we established an irrevocable letter of credit in favor of our landlord for our iContact office in North Carolina in the amount of \$111,000 which will automatically reduce to \$21,000 on March 1, 2013. The letter of credit does not require a compensating balance and is active through March 2013, but may be renewed through June 30, 2016.

On February 27, 2012, we established a \$15.0 million revolving credit facility (Revolver) with a major lending institution which will be available for use until February 27, 2013. In February 2013, the Revolver was amended to extend the availability for use until April 15, 2014. The Revolver is intended to be used for general working capital purposes and to provide increased liquidity and financial flexibility. The Revolver has a one-year term, renewable annually and bears interest equal to the BBA LIBOR Daily Floating Rate plus 2.25%. In addition, we pay a monthly fee equal to 0.4% on any unused funds under the revolving credit facility. As collateral for extension of credit under the facility, we granted security interests in favor of the institution of substantially all of our assets and pledged the stock of our directly owned domestic subsidiaries and 65% of the shares of our foreign subsidiaries. As of December 31, 2012, the Revolver was reduced by our outstanding letters of credit of \$1.3 million. As such, we had \$13.7 million available to borrow under the Revolver.

As of December 31, 2012, \$20.0 million remains available for purchases under our stock repurchase program. Although we repurchased stock during the years ended December 31, 2010 and 2011, we may or may not do so in future periods, and our revolving credit facility limits our ability to engage in stock repurchases.

As of December 31, 2012, we had net operating loss (NOL) carryforwards for federal and state tax purposes of approximately \$80.7 million and \$36.2 million, respectively, which will begin to expire in 2025 through 2032. Our foreign subsidiaries generated NOL carryforwards of \$11.7 million which will begin to expire in 2015 and may be indefinite lived. Included in these amounts at December 31, 2012 are approximately \$5.4 million in cumulative income tax deductions on the exercise of stock options and the vesting of restricted stock awards. This income tax benefit will be recorded to additional paid-in-capital when realized.

As of December 31, 2012, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than our operating leases for office space and computer equipment, we do not engage in off-balance sheet financing arrangements. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

We intend to fund our operating expenses and capital expenditures primarily through cash flows from operations. We believe that our cash, cash equivalents and investments together with our expected cash flows from operations will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures, contractual obligations, commitments and other liquidity requirements associated with our operations for at least the next twelve months. Our cash requirements in the future may also be financed through our revolving credit facility or additional equity financing. There can be no assurance that financing would come at favorable terms, if at all.

The following table summarizes our contractual obligations as of December 31, 2012 that requires us to make future cash payments:

	Payments due by period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<b>Contractual Obligations</b>					
Operating lease obligations	\$29,476	\$ 4,257	\$ 8,097	\$6,501	\$ 10,621
Purchase obligations	9,441	6,072	3,313	56	—
Contingent consideration obligation (1)	1,107	1,107	—	—	—
Long-term debt under notes payable obligations	776	742	34	—	—
Capital lease obligations	533	191	260	82	—
<b>Total obligations</b>	<b>\$41,333</b>	<b>\$12,369</b>	<b>\$11,704</b>	<b>\$6,639</b>	<b>\$ 10,621</b>

- (1) The amount included in the table above represents the fair value of the liability for contingent consideration as of December 31, 2012, which is included in accrued expenses and is expected to be paid in the first quarter of 2013.

In addition, our other liabilities include \$933,000 related to uncertain tax positions as of December 31, 2012. Due to uncertainties in the timing of the completion of tax audits, the timing of the resolution of these positions is uncertain, and we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond twelve months. As a result, this amount is not included in the above table.

In connection with our acquisition of iContact, on February 24, 2017, we will be required to redeem each issued and outstanding share of Series A convertible preferred stock for \$77.30 per share from our legally available funds, or such lesser amounts as we may then redeem under Delaware corporate law. Each share of Series A convertible preferred stock is convertible into shares of our common stock at any time at the option of the holder. For conversions occurring on or before February 24, 2017, each share of Series A convertible preferred stock may be converted into 3.0256 shares of common stock (subject to customary adjustments, and subject to increase if we fail to fulfill our obligation to redeem the preferred stock on February 24, 2017). On or after February 25, 2017, each share of Series A convertible preferred stock which has not been redeemed may be converted into 3.3282 shares of common stock (subject to customary adjustments). Any redemption value is not included in above table due to the uncertainty of conversion or redemption.

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

## **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

### **Foreign Currency Exchange Risk**

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound sterling, euro and Philippine peso. As a result, we are exposed to movements in the exchange rates of currencies against the U.S. dollar. For the years ended December 31, 2010, 2011 and 2012, revenues denominated in a foreign currency were approximately 11%, 14% and 10% of our total revenues, respectively. Exchange rate fluctuations have not significantly impacted our results of operations and cash flows. Our future results of operations and cash flows may be affected by changes in foreign currency exchange rates. Historically, we have not utilized derivative financial instruments to hedge our foreign exchange exposure; however, we may choose to use such contracts in the future.

### **Interest Rate Sensitivity**

Our cash consists of interest and non-interest bearing accounts. Our cash equivalents and investments consist primarily of money market funds and certificates of deposit. Our interest income is subject to interest rate risk. For the year ended December 31, 2012, a fluctuation in interest rates of 1 percentage point would not materially change interest income.

Our interest-bearing long-term borrowings as of December 31, 2012 were not material. In the event that we borrow under our revolving credit facility, which bears interest equal to the BBA LIBOR Daily Floating Rate plus 2.25%, we would be exposed to interest rate fluctuations.

## **Item 8. *Financial Statements and Supplementary Data***

Our consolidated financial statements and related notes required by this item are set forth as a separate section of this report. See Part IV, Item 15 of this Form 10-K.

## **Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

## **Item 9A. *Controls and Procedures***

### **Evaluation of Disclosure Controls and Procedures**

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information required to be disclosed is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

### **Changes in Internal Controls**

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to further periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, our management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2012 based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012. The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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**Report of Independent Registered Public Accounting Firm on  
Internal Control Over Financial Reporting**

The Board of Directors and Stockholders of Vocus, Inc. and Subsidiaries,

We have audited Vocus, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Vocus, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Vocus, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Vocus, Inc. and subsidiaries as of December 31, 2011 and 2012 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated March 11, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA  
March 11, 2013

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**Item 9B. *Other Information***

None.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

A listing of our executive officers, key employees and their biographies are included under the caption “Executive Officers and Key Employees” under Item 1 of this Form 10-K. The remaining information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

**Item 11. *Executive Compensation***

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

**Item 14. *Principal Accountant Fees and Services***

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 Annual Meeting of Stockholders.

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## PART IV

### Item 15. *Exhibits and Financial Statement Schedules*

(a) *Documents filed as part of this report:*

1. Consolidated Financial Statements:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of December 31, 2011 and 2012;
- Consolidated Statements of Operations for the years ended December 31, 2010, 2011 and 2012;
- Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2010, 2011 and 2012;
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2011 and 2012;
- Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2011 and 2012; and
- Notes to Consolidated Financial Statements.

2. Consolidated Financial Statement Schedule:

- Schedule II — Valuation and Qualifying Accounts.

Schedules not listed above have been omitted because they are not applicable, or are not required, or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

(b) *Exhibits*

The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this report.



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**Vocus, Inc. and Subsidiaries**  
**Index to Financial Statements**

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2011 and 2012	F-3
Consolidated Statements of Operations for the years ended December 31, 2010, 2011 and 2012	F-4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2010, 2011 and 2012	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2011 and 2012	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2011 and 2012	F-7
Notes to Consolidated Financial Statements	F-8

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Vocus, Inc. and Subsidiaries,

We have audited the accompanying consolidated balance sheets of Vocus, Inc. and subsidiaries as of December 31, 2011 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vocus, Inc. and subsidiaries as of December 31, 2011 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Vocus, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA  
March 11, 2013

**Vocus, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

	December 31,	
	2011	2012
	(Dollars in thousands, except per share data)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 98,284	\$ 32,107
Short-term investments	9,895	662
Accounts receivable, net of allowance for doubtful accounts of \$244 and \$236 at December 31, 2011 and December 31, 2012, respectively	23,504	29,841
Current portion of deferred income taxes	82	1,478
Prepaid expenses and other current assets	1,966	2,933
<b>Total current assets</b>	<b>133,731</b>	<b>67,021</b>
Long-term investments	—	1,322
Property, equipment and software, net	17,843	20,068
Intangible assets, net	5,094	26,751
Goodwill	38,029	177,011
Other assets	1,046	641
<b>Total assets</b>	<b>\$195,743</b>	<b>\$292,814</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 725	\$ 4,125
Accrued compensation	3,695	5,443
Accrued expenses	13,463	12,133
Current portion of notes payable and capital lease obligations	176	854
Current portion of deferred revenue	62,010	77,098
<b>Total current liabilities</b>	<b>80,069</b>	<b>99,653</b>
Notes payable and capital lease obligations, net of current portion	854	751
Other liabilities	8,331	6,786
Deferred income taxes	2,781	5,120
Deferred revenue, net of current portion	987	2,235
<b>Total liabilities</b>	<b>93,022</b>	<b>114,545</b>
<b>Commitments and contingencies</b>		
<b>Redeemable convertible preferred stock:</b>		
Series A redeemable convertible preferred stock, \$0.01 par value, 1,000,000 shares designated from authorized preferred stock; issued and outstanding at December 31, 2012	—	77,490
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2011; 1,000,000 shares designated as Series A redeemable convertible preferred stock and issued and outstanding at December 31, 2012; no other shares issued and outstanding at December 31, 2012	—	—
Common stock, \$0.01 par value, 90,000,000 shares authorized; 21,750,525 and 21,910,301 issued at December 31, 2011 and December 31, 2012, respectively; 18,722,384 and 19,670,168 shares outstanding at December 31, 2011 and December 31, 2012, respectively	218	219
Additional paid-in capital	200,273	215,226
Treasury stock, 3,028,141 and 2,240,133 shares at December 31, 2011 and December 31, 2012, respectively, at cost	(48,423)	(41,909)
Accumulated other comprehensive loss	(607)	(426)
Accumulated deficit	(48,740)	(72,331)
<b>Total stockholders' equity</b>	<b>102,721</b>	<b>100,779</b>
<b>Total liabilities, redeemable convertible preferred stock and stockholders' equity</b>	<b>\$195,743</b>	<b>\$292,814</b>

See accompanying notes.

**Vocus, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**

	Year Ended December 31,		
	2010	2011	2012
	(Dollars in thousands, except per share data)		
Revenues	\$ 96,760	\$ 114,874	\$ 170,804
Cost of revenues	18,932	21,857	33,749
Gross profit	77,828	93,017	137,055
Operating expenses:			
Sales and marketing	49,620	57,543	97,873
Research and development	5,891	7,561	13,272
General and administrative	23,587	30,129	40,651
Amortization of intangible assets	2,298	2,021	7,157
Total operating expenses	81,396	97,254	158,953
Loss from operations	(3,568)	(4,237)	(21,898)
Other income (expense):			
Interest and other income (expense)	224	317	(41)
Interest expense	(153)	(38)	(225)
Total other income (expense)	71	279	(266)
Loss before provision for income taxes	(3,497)	(3,958)	(22,164)
Provision for income taxes	178	10,619	1,427
Net loss	<u>\$ (3,675)</u>	<u>\$ (14,577)</u>	<u>\$ (23,591)</u>
Net loss per share:			
Basic	\$ (0.21)	\$ (0.78)	\$ (1.21)
Diluted	\$ (0.21)	\$ (0.78)	\$ (1.21)
Weighted average shares outstanding used in computing per share amounts:			
Basic	17,921,238	18,743,305	19,437,076
Diluted	17,921,238	18,743,305	19,437,076

See accompanying notes.

**Vocus, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**

	<u>Year Ended December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(Dollars in thousands)		
Net loss	\$(3,675)	\$(14,577)	\$(23,591)
Other comprehensive income (loss):			
Foreign currency translation adjustment	(474)	(442)	189
Unrealized net gain (loss) on available-for-sale investments, net of taxes	(6)	10	(8)
Other comprehensive income (loss)	(480)	(432)	181
Comprehensive loss	<u>\$(4,155)</u>	<u>\$(15,009)</u>	<u>\$(23,410)</u>

See accompanying notes.

**Vocus, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balance at January 1, 2010	19,854,585	\$ 199	\$149,279	\$(14,914)	\$ 305	\$ (30,488)	\$ 104,381
Exercise of stock options	349,208	3	4,160	—	—	—	4,163
Vesting of restricted stock awards	170,474	2	(2)	—	—	—	—
Tax benefit from equity awards	—	—	681	—	—	—	681
Repurchase of 918,681 shares of common stock	—	—	—	(13,503)	—	—	(13,503)
Stock-based compensation	—	—	12,867	—	—	—	12,867
Net loss	—	—	—	—	—	(3,675)	(3,675)
Other comprehensive income (loss)	—	—	—	—	(480)	—	(480)
Balance at December 31, 2010	20,374,267	204	166,985	(28,417)	(175)	(34,163)	104,434
Exercise of stock options	1,219,643	12	18,940	—	—	—	18,952
Vesting of restricted stock awards	156,615	2	(2)	—	—	—	—
Tax deficiency from equity awards	—	—	(586)	—	—	—	(586)
Repurchase of 978,709 shares of common stock	—	—	—	(20,006)	—	—	(20,006)
Stock-based compensation	—	—	14,936	—	—	—	14,936
Net loss	—	—	—	—	—	(14,577)	(14,577)
Other comprehensive income (loss)	—	—	—	—	(432)	—	(432)
Balance at December 31, 2011	21,750,525	218	200,273	(48,423)	(607)	(48,740)	102,721
Exercise of stock options	10,391	—	72	—	—	—	72
Vesting of restricted stock awards	149,385	1	(1)	—	—	—	—
Issuance of 401,672 shares of common stock from treasury shares for business acquisition	—	—	—	9,600	—	—	9,600
Tax deficiency from equity awards	—	—	(3)	—	—	—	(3)
Repurchase of 143,789 shares of common stock	—	—	—	(3,086)	—	—	(3,086)
Stock-based compensation	—	—	14,885	—	—	—	14,885
Net loss	—	—	—	—	—	(23,591)	(23,591)
Other comprehensive income (loss)	—	—	—	—	181	—	181
Balance at December 31, 2012	<u>21,910,301</u>	<u>\$ 219</u>	<u>\$215,226</u>	<u>\$(41,909)</u>	<u>\$ (426)</u>	<u>\$ (72,331)</u>	<u>\$ 100,779</u>

See accompanying notes.

**Vocus, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2010	2011	2012
	(Dollars in thousands)		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (3,675)	\$(14,577)	\$(23,591)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization of property, equipment and software	1,971	2,655	4,844
Amortization of intangible assets	2,440	2,501	10,999
Loss on disposal of assets	8	68	59
Impairment of long-lived assets	—	100	709
Stock-based compensation	12,802	14,915	14,872
Common stock issued for consulting services	—	—	482
Adjustments to fair value of contingent consideration	548	1,941	1,176
Provision for doubtful accounts	118	408	408
Deferred income taxes	(835)	9,789	835
Excess tax benefit from equity awards	(883)	(34)	—
Payments of contingent consideration for business acquisitions in excess of fair value on acquisition date	—	(147)	(2,435)
Changes in operating assets and liabilities:			
Accounts receivable	(1,730)	(3,081)	(6,558)
Prepaid expenses and other current assets	(1,270)	1,910	(307)
Other assets	4	(230)	(120)
Accounts payable	(760)	66	2,005
Accrued compensation	609	337	353
Accrued expenses	899	2,173	1,215
Deferred revenue	7,043	6,523	14,383
Other liabilities	441	5,827	(504)
Net cash provided by operating activities	17,730	31,144	18,825
<b>Cash flows from investing activities:</b>			
Business acquisitions, net of cash acquired	(9,851)	(6,947)	(79,801)
Purchases of property, equipment and software	(2,602)	(13,758)	(4,695)
Software development costs	(446)	(305)	(360)
Proceeds from disposal of assets	5	14	5
Purchases of available-for-sale securities	(10,034)	(22,907)	(4,301)
Sales of available-for-sale securities	—	—	5,835
Maturities of available-for-sale securities	23,379	18,390	6,402
Net cash provided by (used in) investing activities	451	(25,513)	(76,915)
<b>Cash flows from financing activities:</b>			
Repurchases of common stock	(13,503)	(20,006)	(3,086)
Proceeds from exercises of stock options	4,163	18,952	73
Excess tax benefit from equity awards	883	34	—
Payments of contingent consideration for business acquisitions	—	(1,289)	(5,171)
Proceeds from notes payable	—	440	—
Payments on notes payable and capital lease obligations	(317)	(177)	(204)
Net cash used in financing activities	(8,774)	(2,046)	(8,388)
Effect of exchange rate changes on cash and cash equivalents	(306)	(219)	301
Net increase (decrease) in cash and cash equivalents	9,101	3,366	(66,177)
Cash and cash equivalents at beginning of year	85,817	94,918	98,284
Cash and cash equivalents at end of year	<u>\$ 94,918</u>	<u>\$ 98,284</u>	<u>\$ 32,107</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 39	\$ 22	\$ 214
Cash paid for income taxes, net of refunds	\$ 1,126	\$ (251)	\$ (399)
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Issuance of Series A redeemable convertible preferred stock in connection with acquisition	\$ —	\$ —	\$ 77,490
Issuance of common stock in connection with acquisition	\$ —	\$ —	\$ 9,118
Issuance of promissory note in connection with acquisition	\$ —	\$ —	\$ 669
Assets acquired under capital leases and other financing arrangements	\$ 11	\$ 440	\$ 106

See accompanying notes.

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**Vocus, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**1. Business Description**

*Organization and Description of Business*

Vocus, Inc. (Vocus or the Company) is a provider of cloud marketing software that helps businesses reach and influence buyers across social networks, online and through the media. The Company provides an integrated suite that combines social marketing, search marketing, email marketing and publicity into a comprehensive solution to help businesses attract, engage and retain customers. The Company is headquartered in Beltsville, Maryland with sales and other offices in the United States, Europe and Asia.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and include the accounts of Vocus, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to the allowance for doubtful accounts, software development costs, useful lives of property, equipment and software, intangible assets and goodwill, contingent liabilities, self-insurance, revenue recognition, fair value of stock-based awards and income taxes, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with original maturity dates of three months or less at the time of purchase to be cash equivalents.

*Investments*

Management determines the appropriate classification of investments at the time of purchase and evaluates such a determination as of each balance sheet date. The Company's investments were classified as available-for-sale securities and were stated at fair value at December 31, 2011 and 2012. Realized gains and losses are included in other income (expense) based on the specific identification method. Realized gains or losses for the years ended December 31, 2010, 2011, and 2012 were not material. Net unrealized gains and losses on available-for-sale securities are reported as a component of other comprehensive income (loss), net of tax. As of December 31, 2011 and 2012, the net unrealized gains or losses on available-for-sale securities were not material. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. Management believes no such declines in value existed at December 31, 2012.

*Fair Value Measurements*

The Company measures certain financial assets at fair value pursuant to a fair value hierarchy based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The fair value hierarchy consists of the following three levels:

- Level 1 — Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 — Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

*Allowance for Doubtful Accounts*

Estimates are used to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to the estimated net realizable value. These estimates are made by analyzing the status of significant past-due receivables and by establishing provisions for estimated losses by analyzing current and historical bad debt trends. The Company charges off uncollectible amounts against the allowance for doubtful accounts in the period in which it determines they are uncollectible. Actual collection experience has not varied significantly from prior estimates.

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### ***Software Development and Information Database Costs***

The Company incurs software development costs related to its cloud-based software. Qualifying costs incurred during the application development stage are capitalized. These costs primarily consist of internal labor and are amortized using the straight-line method over the estimated useful life of the software, generally two years. All other development costs are expensed as incurred. The Company capitalized the initial costs to acquire and develop its proprietary information database, which consists of media contacts and outlets and other relevant data integrated as part of the Company's cloud-based solutions. These costs are amortized using the straight-line method over the estimated useful lives of nine to thirteen years. Costs to maintain and update the information database are expensed as cost of revenues as incurred. For the years ended December 31, 2010, 2011 and 2012, the Company recorded amortization expense of \$438,000, \$581,000 and \$499,000, respectively.

### ***Property, Equipment and Software***

Property, equipment and software are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: three to five years for purchased software and computer and office equipment and five to seven years for office furniture. Assets acquired under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the leases. Amortization of assets acquired under capital leases is included in depreciation expense. Repairs and maintenance costs are charged to expense as incurred. When assets are retired or otherwise disposed of, the asset and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is recorded in the results of operations.

### ***Long-Lived Assets***

Long-lived assets include property, equipment and software and intangible assets with finite lives. Intangible assets consist of customer relationships, trade names and purchased technology acquired in business combinations. Intangible assets are amortized using the straight-line method over their estimated useful lives ranging from two to seven years. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets. There were no impairment charges for long-lived assets for the year ended December 31, 2010. Impairment charges for the year ended December 31, 2011 were \$100,000. Impairment charges for the year ended December 31, 2012 were \$709,000, which primarily related to leasehold improvements no longer used.

### ***Business Combinations***

The Company has completed acquisitions of businesses that have resulted in the recording of goodwill and identifiable definite-lived intangible assets. The Company recognizes all of the assets acquired, liabilities assumed and contingent consideration at their fair values on the acquisition date. The Company uses significant estimates and assumptions, including fair value estimates, as of the acquisition date and refines those estimates that are provisional, as necessary, during the measurement period. The measurement period is the period after the acquisition date, not to exceed one year, in which new information may be gathered about facts and circumstances that existed as of the acquisition date to adjust the provisional amounts recognized. Measurement period adjustments are applied retrospectively. All other adjustments are recorded to the consolidated statements of operations. Acquisition-related costs are expensed as incurred separately from the acquisition and generally are included in general and administrative expenses in the consolidated statements of operations.

### ***Goodwill***

Goodwill represents the excess of the cost of an acquired entity over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but rather is assessed for impairment at least annually. The Company performs its annual impairment assessment on November 1, or whenever events or circumstances indicate impairment may have occurred. The Company operates under one reporting unit, and as a result, evaluates goodwill impairment based on the fair value of the Company as a whole.

In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, it is more likely than not that the fair value of the reporting unit is greater than its carrying value, then performing the two-step impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any of its reporting units, and proceed directly to the use of the two-step impairment test.

When assessing goodwill for impairment, the Company uses an income approach based on discounted cash flows to determine the fair value of its reporting unit. The Company's cash flow assumptions consider historical and forecasted revenue, operating costs and other relevant factors which are consistent with the plans used to manage the Company's operations. Based on the results of the Company's most recent annual assessment performed on November 1, 2012, the Company concluded that the fair value of its reporting unit exceeded its carrying amount. No events or circumstances occurred from the date of the assessment through December 31, 2012 that would impact this conclusion.

### ***Foreign Currency and Operations***

The reporting currency for all periods presented is the U.S. dollar. The functional currency for the Company's foreign subsidiaries is the local currency. The financial statements of these subsidiaries are translated into U.S. dollars using exchange rates in effect at the balance sheet date for assets and liabilities and average exchange rates during the period for revenues and expenses. The resulting translation adjustments are

included in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Transaction gains and losses in currencies other than the functional currency are included in other income (expense) in the consolidated statements of operations. Amounts resulting from foreign currency transactions were not material for the years ended December 31, 2010, 2011 and 2012.

### ***Comprehensive Income (Loss)***

Comprehensive income (loss) includes the Company's net income (loss) as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. Other comprehensive income (loss) includes foreign currency translation adjustments and net unrealized gains and losses on investments classified as available-for-sale securities.

### ***Revenue Recognition***

The Company derives its revenues from subscription arrangements and related services permitting customers to access and utilize the Company's cloud-based software. The Company also derives revenues from news distribution services sold separately from its subscription arrangements. The Company recognizes revenue when there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fee is probable and the amount of the fee to be paid by the customer is fixed or determinable. The Company allocates consideration to each deliverable in multiple element arrangements based on the relative selling prices and recognizes revenue as the respective services are delivered or performed.

The Company's separate units of accounting consist of its subscription services, news distribution services and professional services. These elements generally include access to the Company's cloud-based software, hosting services, content and content updates and customer support. The Company's subscription agreements typically are non-cancelable, though customers have the right to terminate their agreements for cause if the Company materially breaches its obligations under the agreement. Subscription agreements do not provide customers the right to take possession of the software at any time.

The Company also distributes individual news releases to the Internet which are indexed by major search engines and distributed directly to various news sites, journalists and other key constituents. The Company recognizes revenue on a per-transaction basis when the press releases are made available to the public.

The Company's professional services primarily consist of data migration, custom development and training. The Company's cloud-based software does not require significant modification and customization services.

The Company established vendor-specific objective evidence (VSOE) of the fair value for the selling price for certain of its news distribution services as the selling price for a substantial majority of stand-alone sales fall within a narrow range around the median selling price. The Company determined third-party evidence (TPE) of selling price is not available for any of its services due to differences in the features and functionality compared to competitor's products. Therefore, the Company uses its estimated selling prices (ESP) for the remaining deliverables by analyzing multiple factors such as historical pricing trends, discounting practices, gross margin objectives and other market conditions.

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

Prior to January 1, 2011, the Company determined that it did not have objective and reliable evidence of fair value of the undelivered elements in its arrangements. As a result, the Company considered all elements in its multiple element subscription arrangements as a single unit of accounting and recognized all revenue from its multiple element subscription arrangements ratably over the term of the subscription. The subscription term commenced on the earlier of the start date specified in the subscription arrangement or the date access to the software was provided to the customer. Professional services sold separately from a subscription arrangement were recognized as the services were performed.

The Financial Accounting Standards Board (FASB) amended the accounting guidance for multiple-deliverable revenue arrangements to:

- provide updates on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and how the consideration should be allocated;
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and
- require an entity to allocate revenue in an arrangement using estimated selling prices (ESP) of each deliverable if it does not have vendor-specific objective evidence (VSOE) or third-party evidence (TPE) of selling price.

On January 1, 2011, the Company adopted the provisions of the new accounting guidance for multiple-deliverable revenue arrangements entered into or materially modified on or after January 1, 2011 that contain subscription services sold with news distribution services or professional services on a prospective basis and determined the adoption did not have a material impact on its financial statements.

### ***Deferred Revenue***

Deferred revenue consists of payments received from or billings to customers in advance of revenue recognition. Deferred revenue to be recognized in the succeeding twelve month period is included in current deferred revenue with the remaining amounts included in non-current deferred revenue.

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### ***Sales Commissions***

Sales commissions are expensed when a subscription agreement is executed by the customer.

### ***Advertising Costs***

The Company expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2010, 2011 and 2012 were \$8.8 million, \$8.9 million and \$23.4 million, respectively.

### ***Stock-Based Compensation***

The Company's share-based arrangements include stock option awards and restricted stock awards. The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The Company uses the daily historical volatility of its stock price over the expected life of the options to calculate the expected volatility. The Company uses a combination of its historical exercise data with expected future exercise patterns using the average midpoint between vesting and the contractual term to determine the expected term of option awards. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

### ***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, investments and accounts receivable. The Company generally maintains its cash and cash equivalents with various nationally recognized financial institutions. Investments consist of investment grade, interest bearing securities. Customers are granted credit on an unsecured basis. Management monitors the creditworthiness of its customers and believes that it has adequately provided for any exposure to potential credit losses.

The Company provides cloud-based software and related services to various customers across several industries. As of December 31, 2011 and 2012, no individual customer accounted for 10% or more of net accounts receivable. For the years ended December 31, 2010, 2011 and 2012, no individual customer accounted for 10% or more of revenue. As of December 31, 2011 and 2012, assets located outside the United States were approximately 12% and 9% of total assets, respectively. Revenues from sales to customers outside the United States were approximately 13%, 16%, and 11% of total revenues for the years ended December 31, 2010, 2011 and 2012, respectively.

### ***Income Taxes***

Income taxes are determined utilizing the asset and liability method whereby deferred tax assets and liabilities are recognized for deductible temporary differences between the respective reported amounts and tax bases of assets and liabilities, as well as for operating loss and tax-credit carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In 2011, based on the recent operating results and the Company's current projections of future losses, the Company established a full valuation allowance on its U.S. federal and state net deferred tax assets because it was able to conclude that it is more likely than not that it will not realize the benefits of its deferred tax assets. The Company historically maintained a full valuation allowance on net deferred tax assets of certain of its foreign subsidiaries because it determined that it is more likely than not that it will not realize the benefits of its foreign deferred tax assets.

The Company's estimates related to liabilities for uncertain tax positions require it to make judgments regarding the sustainability of each uncertain tax position based on its technical merits. If it determines it is more likely than not that a tax position will be sustained based on its technical merits, the Company records the impact of the position in its consolidated financial statements at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. The estimates are updated at each reporting date based on the facts, circumstances and information available. The Company is also required to assess at each reporting date whether it is reasonably possible that any significant increases or decreases to its unrecognized tax benefits will occur during the next twelve months. The Company files income tax returns in the U.S. federal jurisdictions and various state and foreign jurisdictions and is subject to U.S. federal, state, and foreign tax examinations for years ranging from 2003 to 2012.

### ***Earnings Per Share***

Basic net income or loss per share attributable to common stockholders is computed by dividing net income or loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Nonvested shares of restricted stock are not included in the computation of basic net income per share until vested. The Company's outstanding grants of restricted stock do not contain non-forfeitable dividend rights. Diluted net income per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock, nonvested shares of restricted stock and are considered to be common stock equivalents.

As the Company has issued shares of Series A redeemable convertible preferred stock that participate in dividends with the common stock, the Company is required to apply the two-class method to compute the net income per share attributable to common stockholders. In periods of sufficient earnings, the two-class method assumes an allocation of undistributed earnings to both participating stock classes.

For the years ended December 2010, 2011 and 2012, the Company incurred net losses and, therefore, the effect of the Company's outstanding stock options, nonvested shares of restricted stock and redeemable convertible preferred stock was not included in the calculation of diluted loss per share as the effect would be anti-dilutive. For the years ended December 31, 2010, 2011 and 2012, diluted earnings per share excluded the impact of 2,478,923, 1,757,240 and 2,555,943 outstanding stock options, respectively, and 1,418,731, 1,282,323 and 979,790 nonvested shares of restricted stock, respectively and for the year ended December 31, 2012, 1,000,000 shares of Series A redeemable convertible preferred stock as the result would be anti-dilutive.

### **Segment Data**

The Company's chief operating decision maker manages the Company's operations on a consolidated basis for purposes of assessing performance and making operating decisions. Accordingly, the Company reports on its business as one segment.

## **3. Business Combinations**

### **Acquisition of iContact**

On February 24, 2012, the Company acquired all of the outstanding shares of capital stock of iContact Corporation (iContact), a privately-held provider of cloud-based email and social marketing software that enables organizations to create and publish professional-quality emails designed to engage, educate and retain customers. The acquisition of iContact added an email capability component to the Company's cloud marketing suite. During the year ended December 31, 2012, the Company incurred acquisition-related transaction costs of \$2.9 million, which are included in general and administrative expense in the consolidated statements of operations. During the year ended December 31, 2012, the Company incurred severance costs of \$2.1 million, of which \$52,000, \$691,000, \$637,000 and \$691,000, were included in cost of revenues, sales and marketing, research and development and general and administrative expenses, respectively, in the consolidated statement of operations. All amounts were paid as of December 31, 2012. The acquisition was accounted for under the purchase method of accounting. The operating results of iContact are included in the accompanying consolidated financial statements from the date of acquisition.

The purchase consideration consisted of the following (in thousands):

Cash	\$ 89,801
Note payable	669
Common stock	9,118
Series A redeemable convertible preferred stock	77,490
<b>Total purchase consideration</b>	<b><u>\$177,078</u></b>

The purchase price consisted of \$90.5 million in cash, of which \$669,000 was held back in the form of a promissory note, 401,672 shares of the Company's common stock with a deemed value at issuance of \$9.1 million and 1,000,000 shares of the Company's newly-created Series A convertible preferred stock with a deemed value at issuance of \$77.5 million, aggregating approximately \$167.1 million of total consideration, net of \$10.0 million cash acquired. For more information about the promissory note, please refer to Note 8, *Debt*, and for more information about the Series A redeemable convertible preferred stock, please refer to Note 9, *Series A Redeemable Convertible Preferred Stock*. At the closing of the acquisition, a portion of the consideration, consisting of 72,656 shares of common stock, 85,090 shares of the Series A redeemable convertible preferred stock, \$6.1 million in cash and the \$669,000 promissory note, were deposited in escrow for a period of one year to satisfy potential indemnification claims by the Company against iContact with respect to breaches by iContact of its representations, warranties and covenants, or any post-closing purchase price adjustments or outstanding appraisal claims by iContact stockholders. All amounts were released from escrow in the first quarter of 2013.

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The identifiable intangible assets include a trade name, customer relationships and purchased technology and are being amortized over three years on a straight-line basis. The Company, with the assistance of a third-party appraiser, assessed the fair value of these assets. The trade name and purchased technology were valued using the relief from royalty method and the customer relationships were valued using a discounted cash flow method. The relief from royalty method assesses the royalty savings an entity realizes since it owns the asset and does not have to pay a license fee to a third-party for its use. These methods require several judgments and assumptions to determine the fair value of the intangible assets including royalty rates, discount rates, customer attrition rates, useful lives of assets and expected levels of cash flows, earnings and revenues. The royalty rates used in the relief from royalty method ranged from 0.7% to 12% based on an analysis of market comparable rates. The discount rate used to estimate future cash flows was approximately 13%. The excess of the purchase price over the net tangible and identifiable intangible assets acquired was recorded as goodwill which is not deductible for tax purposes.

The Company recognized a deferred tax asset in the amount of \$20.3 million relating to acquired net operating losses, established a deferred tax liability of \$14.0 million relating to the step up in basis of identifiable intangibles and property plant and equipment, and recorded a valuation allowance of \$6.3 million. The Company determined that while the acquired net operating loss is subject to the limitation provided in Section 382 of the Internal Revenue Code, this limitation will not preclude the company from fully realizing the acquired net operating losses.

Goodwill is primarily attributable to the assembled work force of iContact and the expected synergies resulting from the transaction.

The purchase price as of the acquisition date was as follows (in thousands):

	<u>Estimated Useful Life</u>	<u>Estimated Fair Value</u>
Cash and cash equivalents		\$ 10,000
Accounts receivable, net		96
Prepaid and other current assets		478
Property, equipment and software, net		2,625
Trade name	3 years	1,400
Customer relationships	3 years	19,166
Purchased technology	3 years	12,041
Goodwill		138,860
Accounts payable and accrued liabilities		(5,911)
Deferred revenue		(1,645)
Other liabilities		(32)
Total purchase price		<u>\$177,078</u>

The following unaudited pro forma consolidated results of operations for years ended December 31, 2011 and 2012 assumes that the iContact acquisition occurred at the beginning of 2011. The unaudited pro forma information combines the historical results for the Company with the historical results for iContact for the same period. The unaudited pro forma financial information for the years ended December 31, 2011 and 2012 includes adjustments for amortization of acquired intangible assets of \$10.4 million and \$1.5 million, respectively. The unaudited pro forma financial information for the year ended December 31, 2012 excludes acquisition-related transaction and severance costs of \$5.0 million and the fair value adjustment for deferred revenue of \$2.2 million. The following unaudited pro forma information is not intended to be indicative of future operating results (dollars in thousands, except per share data):

	<u>Year Ended December 31,</u>	
	<u>2011</u>	<u>2012</u>
Pro forma revenues	<u>\$162,743</u>	<u>\$180,403</u>
Pro forma net loss	<u>\$(30,883)</u>	<u>\$(19,279)</u>
Pro forma net loss per share:		
Basic and diluted	<u>\$ (1.61)</u>	<u>\$ (0.99)</u>

The Company recognized revenue and incurred a net loss from iContact of \$41.4 million and \$4.5 million, respectively, since the date of acquisition through December 31, 2012.

#### ***Acquisition of North Social***

On February 24, 2011, the Company acquired substantially all of the assets and assumed certain liabilities of North Venture Partners, LLC (North Social), a provider of Facebook applications that enable users to create, manage and promote their business on Facebook. The acquisition of North Social broadened the Company's social media solution. The acquisition was accounted for under the purchase method of accounting. The operating results of North Social are included in the accompanying consolidated financial statements from the date of acquisition.

The purchase consideration at the acquisition date consisted of approximately \$7.0 million in cash and \$5.1 million of contingent cash consideration for the achievement of certain financial milestones within the following 24 months. In 2012, the Company paid \$7.0 million of contingent consideration for the achievement of certain financial milestones. The Company recorded approximately \$101,000 of identifiable intangible assets, \$11.9 million of goodwill that is deductible for tax purposes, and \$78,000 of other net tangible assets. Goodwill was primarily attributable to North Social's knowledge of applications for Facebook and the opportunity to expand into the rapidly growing social media market. The fair value of the contingent consideration was estimated using probability assessments of expected future cash flows over the period in which the obligation is to be settled and applied a discount rate that appropriately captures a market participant's view of the risk associated with the obligation. The fair value of the contingent consideration was adjusted based on an updated assessment of the probability of achievement of the performance metrics and the discount factor reflecting the passage of time from the acquisition date through December 31, 2012. The additional expense of \$1.9 million and \$1.2 million was included in general and administrative expenses in the consolidated statements of operations for the years ended December 31, 2011 and 2012, respectively. As of December 31, 2012, the fair value of the liability for the remaining contingent consideration was \$1.1 million and is included in accrued expenses. Acquisition-related costs associated with the acquisition were not material. Pro forma results of operations have not been presented because the acquisition was not material in relation to the Company's consolidated financial statements.

### Acquisition of Datapresse

On April 16, 2010, the Company acquired all of the outstanding shares of Data Presse SAS (Datapresse), a provider of media content and cloud-based public relations software in France which expanded the Company's presence in Europe. Datapresse's cloud-based software complements the Company's suite of cloud-based solutions. The purchase consideration at the acquisition date consisted of cash paid at closing and contingent cash consideration for the achievement of certain financial metrics for the twelve month period ending April 30, 2011. The Company incurred acquisition-related costs of approximately \$747,000 for the year ended December 31, 2010, which were included in general and administrative expenses in the consolidated statements of operations.

The purchase consideration at the acquisition date consisted of the following (in thousands):

Cash consideration	\$ 9,723
Fair value of contingent consideration	572
Total purchase consideration at date of acquisition	<u>\$10,295</u>

The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The identifiable intangible assets include a trade name, customer relationships and purchased technology, and are subject to amortization on a straight-line basis and are being amortized over five to seven years. The Company, with the assistance of a third-party appraiser, assessed the fair value of these assets. The trade name and purchased technology were valued using the relief from royalty method and the customer relationships were valued using a discounted cash flow method. The relief from royalty method assesses the royalty savings an entity realizes since it owns the asset and does not have to pay a license fee to a third-party for its use. These methods require several judgments and assumptions to determine the fair value of the intangible assets including royalty rates, discount rates, customer attrition rates, useful lives of assets and expected levels of cash flows, earnings and revenues. The royalty rates used in the relief from royalty method ranged from 1.5% to 10% based on an analysis of market comparable rates. The discount rate used to estimate future cash flows was approximately 20%. The excess of the purchase price over the net tangible and identifiable intangible assets acquired was recorded as goodwill which is not deductible for tax purposes. Goodwill primarily resulted from the Company's expectation of sales growth and cost synergies from the integration of Datapresse's technology with the Company's technology and operations to provide an expansion of products and market reach in Europe.

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

	Estimated Useful Life	Estimated Fair Value
Cash and cash equivalents		\$ 2,798
Accounts receivable and other current assets		1,389
Other assets		442
Trade name	5 years	218
Customer relationships	7 years	3,617
Purchased technology	5 years	842
Goodwill		5,941
Accounts payable and accrued liabilities		(1,200)
Notes payable and capital lease obligations		(418)
Deferred income taxes		(1,409)
Deferred revenue		(1,793)
Other liabilities		(132)
Total purchase price		<u>\$ 10,295</u>

The fair value of the contingent consideration was adjusted based on actual performance from the acquisition date through April 30, 2011. The additional expense was not material for the years ended December 31, 2010 and 2011. During the year ended December 31, 2011, the Company made payments in the amount of \$715,000 which represents full settlement of the contingent consideration liability.

### Other Acquisitions

In 2010, the Company completed three additional acquisitions of privately-held entities primarily to expand its product offerings and enhance its technology base. These acquisitions were not material individually or in the aggregate in relation to the Company's consolidated financial statements and, as such, pro forma results of operations have not been presented. The entities were acquired for a total of \$3.2 million in cash and \$811,000 of contingent consideration for the achievement of revenue targets in 2010 and 2011. The Company recorded \$1.4 million of identifiable intangible assets, \$1.8 million of goodwill that is not deductible for tax purposes and \$1.6 million of goodwill that is deductible for tax purposes. In connection with one of the acquisitions, the Company identified an uncertain tax position, and, as a result recorded \$758,000 in other liabilities in the consolidated balance sheet at December 31, 2010. During the years ended December 31, 2010 and 2011, the

fair value of the contingent consideration was adjusted based on actual performance. The additional expense of \$504,000 was included in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2010. The fair value adjustment to contingent consideration was not material for the year ended December 31, 2011. In 2011 and 2012, the Company made payments in the amount of \$699,000 and \$606,000, respectively, related to the contingent consideration which represents full settlement of the contingent consideration liability. Acquisition-related costs incurred for these acquisitions were not material.

#### 4. Cash Equivalents and Investments

The components of cash equivalents and investments at December 31, 2011 were as follows (in thousands):

	Cost	Unrealized		Fair Market Value
		Gains	Losses	
<b>Cash equivalents:</b>				
Money market funds	\$41,292	\$ —	\$ —	\$41,292
Commercial paper	3,000	—	—	3,000
Certificates of deposit	1,000	—	—	1,000
<b>Short-term investments:</b>				
Commercial paper	1,998	2	—	2,000
U.S. Treasury Securities	1,004	—	—	1,004
Government-sponsored agency debt securities	3,536	—	(1)	3,535
Certificates of deposit	3,349	7	—	3,356
<b>Total</b>	<b>\$55,179</b>	<b>\$ 9</b>	<b>\$ (1)</b>	<b>\$55,187</b>

The components of cash equivalents and investments at December 31, 2012 were as follows (in thousands):

	Cost	Unrealized		Fair Market Value
		Gains	Losses	
<b>Cash equivalents:</b>				
Money market funds	\$11,290	\$ —	\$ —	\$11,290
Certificates of deposit	1,322	—	—	1,322
<b>Short-term investments:</b>				
Certificates of deposit	660	2	—	662
<b>Long-term investments:</b>				
Certificates of deposit	1,322	—	—	1,322
<b>Total</b>	<b>\$14,594</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$14,596</b>

Cash equivalents have original maturity dates of three months or less. Short-term investments have original maturity dates greater than three months but less than one year. Long-term investments have original maturity dates between one and five years.

#### 5. Fair Value Measurements

The fair value measurements of the Company's financial assets and liabilities measured on a recurring basis at December 31, 2011 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$45,292	\$42,292	\$3,000	\$ —
Short-term investments	9,895	7,895	2,000	—
<b>Total assets measured at fair value</b>	<b>\$55,187</b>	<b>\$50,187</b>	<b>\$5,000</b>	<b>\$ —</b>
<b>Liabilities:</b>				
<b>Accrued expenses:</b>				
Accrued contingent consideration, current portion	\$ 6,795	\$ —	\$ —	\$6,795
<b>Other liabilities:</b>				
Accrued contingent consideration, net of current portion	742	—	—	742
<b>Total liabilities measured at fair value</b>	<b>\$ 7,537</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$7,537</b>

The fair value measurements of the Company's financial assets and liabilities measured on a recurring basis at December 31, 2012 were as follows (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
Cash equivalents	\$12,612	\$12,612	\$ —	\$ —
Short-term investments	662	662	—	—
Long-term investments	1,322	1,322	—	—
Total assets measured at fair value	<u>\$14,596</u>	<u>\$14,596</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Accrued expenses:				
Accrued contingent consideration, current portion	\$ 1,107	\$ —	\$ —	\$1,107
Total liabilities measured at fair value	<u>\$ 1,107</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,107</u>

Cash equivalents and short-term investments are classified within Level 1 or Level 2 of the fair value hierarchy since they are valued using quoted market prices or alternative pricing sources that utilize market observable inputs.

The Company has incurred contingent consideration liabilities in connection with its business acquisitions in 2010 and 2011. Contingent consideration liabilities are classified as Level 3 of the fair value hierarchy since they are valued using unobservable inputs. The contingent consideration liability represents the estimated fair value of the additional cash consideration payable that is contingent upon the achievement of certain financial and performance milestones through respective target dates in 2011, 2012 and 2013. The fair value of this Level 3 liability is estimated based on a discounted probability-weighted income approach derived from revenue and earnings estimates and a probability assessment with respect to the likelihood of achieving the milestone criteria. Any increases or decreases in the probability of achievement of any of these certain financial and performance milestones could result in a significant increase or decrease to the estimated fair value. During the years ended 2011 and 2012, the fair value of the contingent consideration was adjusted based on an updated assessment of the probability of achievement of the performance metrics and the discount factor reflecting the passage of time. For the years ended December 31, 2011 and 2012, the additional expense of \$1.9 million and \$1.2 million, respectively, was included in general and administrative expenses in the consolidated statements of operations. The remaining liability for contingent consideration is included in accrued expenses.

The changes in the fair value of the Company's acquisition related contingent consideration for the years ended December 31, 2011 and 2012, were as follows (in thousands):

	<u>December 31,</u>	
	<u>2011</u>	<u>2012</u>
Balance as of beginning of period	\$ 1,937	\$ 7,537
Acquisition date fair value measurement	5,059	—
Payment of contingent consideration	(1,436)	(7,606)
Adjustments to fair value measurements	1,941	1,176
Effects of foreign currency translation	36	—
Balance as of end of period	<u>\$ 7,537</u>	<u>\$ 1,107</u>

## 6. Property, Equipment and Software

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

	<u>December 31,</u>	
	<u>2011</u>	<u>2012</u>
Purchased software, computer and office equipment	\$ 8,601	\$ 12,539
Office furniture	1,701	2,030
Leasehold improvements	10,660	11,499
Equipment under capital lease obligations	463	569
Capitalized software development costs	1,785	1,960
Information database costs	2,641	2,839
	25,851	31,436
Less accumulated depreciation and amortization	(8,008)	(11,368)
Property, equipment and software, net	<u>\$17,843</u>	<u>\$ 20,068</u>

Depreciation and amortization expense, including depreciation on equipment under capital leases, was \$2.0 million, \$2.7 million and \$4.8 million for the years ended December 31, 2010, 2011 and 2012, respectively.

## 7. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2012 were as follows (in thousands):

	December 31,	
	2011	2012
Balance as of beginning of period	\$26,278	\$ 38,029
Goodwill acquired	11,880	138,860
Effects of foreign currency translation	(129)	122
Balance as of end of period	<u>\$38,029</u>	<u>\$177,011</u>

Intangible assets at December 31, 2011 consisted of the following (in thousands):

	Weighted-Average Amortization	Gross Carrying	Net Carrying	
	Period	Amount	Amortization	Amount
Customer relationships	6.7	\$ 4,132	\$ (1,069)	\$ 3,063
Trade names	6.9	4,362	(3,175)	1,187
Purchased technology	3.8	1,449	(605)	844
Total		<u>\$ 9,943</u>	<u>\$ (4,849)</u>	<u>\$ 5,094</u>

Intangible assets at December 31, 2012 consisted of the following (in thousands):

	Weighted-Average Amortization	Gross Carrying	Net Carrying	
	Period	Amount	Amortization	Amount
Customer relationships	3.7	\$23,221	\$ (7,014)	\$ 16,207
Trade names	5.9	5,686	(4,192)	1,494
Purchased technology	3.1	13,460	(4,410)	9,050
Total		<u>\$42,367</u>	<u>\$ (15,616)</u>	<u>\$ 26,751</u>

The Company's goodwill and intangible assets for certain of its foreign subsidiaries are recorded in their functional currency, which is their local currency, and therefore are subject to foreign currency translation adjustments.

Amortization expense of intangible assets for the years ended December 31, 2010, 2011 and 2012 was \$2.4 million, \$2.5 million and \$11.0 million, respectively. Future expected amortization of intangible assets at December 31, 2012 was as follows (in thousands):

2013	\$ 12,031
2014	11,688
2015	2,327
2016	553
2017	152
2018 and thereafter	—
Total	<u>\$ 26,751</u>

## 8. Debt

### Term Loans

The Company entered into loan agreements with the Maryland Economic Development Assistance Authority Fund totaling \$440,000 in 2011. The proceeds of the loans were used in the renovation of the new corporate headquarters in Beltsville, Maryland. The borrowings bear interest at 3.0%, and the term of the loans end on December 31, 2020. The conditions of the loans stipulate that principal and related accrued interest be forgiven if specified employment levels are achieved and maintained and the Company maintains the Beltsville, Maryland location as the corporate headquarters through December 31, 2020. As of December 31, 2012, the Company has met the conditions of the loans, however, the conditions are required to be met throughout the term of the loan and, as such, the loan is recorded as a long-term liability. The \$440,000 outstanding under these loans is included in notes payable and capital lease obligations, net of current portion and the related accrued interest is included in other liabilities.

## Notes Payable

A portion of the purchase consideration for the acquisition of iContact was held back in the form of a promissory note (Escrow Note) in the amount of \$669,000. The Escrow Note accrued interest at a rate of 1% per annum and was held in escrow until payment in 2013. As of December 31, 2012 outstanding borrowings were \$669,000. The Escrow note and related accrued interest were paid in full in February 2013.

The Company also assumed a note payable as a result of its acquisition of Datapresse in 2010. Borrowings bear interest at the three month Euribor plus 1.6% (1.8% at December 31, 2012). Principal and interest payments are due quarterly with the final payment due in June 2014. As of December 31, 2012 outstanding borrowings were \$100,000.

Future principal payments under the notes payable outstanding at December 31, 2012 are as follows (in thousands):

2013	\$ 736
2014	33
2015 and thereafter	—
Total	<u>\$ 769</u>

## Revolving Credit Facility

On February 27, 2012, the Company established a \$15.0 million revolving credit facility (Revolver) with a major lending institution which will be available for use until February 27, 2013. In February 2013, the Revolver was amended to extend the availability for use until April 15, 2014. The Revolver is intended to be used for general working capital purposes and to provide increased liquidity and financial flexibility. The Revolver has a one-year, annual renewable term and bears interest equal to the BBA LIBOR Daily Floating Rate plus 2.25%. In addition, the Company pays a monthly fee equal to 0.4% on any unused funds under the revolving facility. As collateral for extension of credit under the facility, the Company and certain of its subsidiaries granted security interests in favor of the institution of substantially all of their assets, and the Company pledged the stock of its directly owned domestic subsidiaries and 65% of the shares of its foreign subsidiaries. As of December 31, 2012, there were no outstanding borrowings, however, the facility was reduced by the Company's outstanding letters of credit of \$1.3 million. As such, the Company had \$13.7 million available to borrow under the Revolver.

## 9. Series A Redeemable Convertible Preferred Stock

In February 2012, the Company's board of directors designated 1.0 million shares of the Company's authorized preferred stock as Series A convertible preferred stock. In connection with the acquisition of iContact, the Company issued 1,000,000 shares of Series A redeemable convertible preferred stock (Preferred Stock) with a deemed fair value at issuance of \$77.5 million. The Company does not adjust the carrying value to the redemption amount of the convertible preferred stock as the carrying amount exceeds the redemption amount. There have been no changes to the recorded amount of the Preferred Stock since the issuance of the shares.

Each share of the Preferred Stock has a liquidation preference equal to the greater of \$77.30 (subject to appropriate adjustment in the event of any stock dividend, stock split, combination, or other similar recapitalization affected the Preferred Stock) or the value of the shares of common stock that would be issued in respect thereof upon conversion of such share of Preferred Stock. The Preferred Stock does not provide for interest and is entitled to participate in any dividends declared on the Company's common stock on an as-converted basis. On February 24, 2017, the Company will be required to redeem each issued and outstanding share of the Preferred Stock for \$77.30 per share from its legally available funds, or such lesser amount of shares as it may then redeem under Delaware law. Each share of the Preferred Stock is convertible into shares of the Company's common stock at any time at the option of the holder. For conversions occurring on or before February 24, 2017, each share of Preferred Stock will be convertible into 3.0256 shares of common stock (subject to customary adjustments). On and after February 25, 2017, each share of the Preferred Stock which has not been redeemed will be convertible into 3.3282 shares of common stock (subject to customary adjustments).

The holders of Preferred Stock vote on an as-converted basis with the common stock, voting together as a single class, provided that the holders of the Preferred Stock are entitled to vote separately as a class on certain matters affecting the Preferred Stock. If any shares of Preferred Stock are outstanding on or after February 24, 2017, the holders of the Preferred Stock will have the right to vote separately as a class on additional actions by the Company related to acquisitions, redemptions, dividends, capital stock, and indebtedness. In connection with the acquisition of iContact, the Company also entered into, on February 24, 2012, an Investor Rights Agreement (Investor Rights Agreement) whereby the holders of the Preferred Stock have the right to nominate a director to the Company's Board for as long as they hold 5% or more of the Company's issued and outstanding capital stock (which nominee shall be the Series A Director for so long as the holders of Preferred Stock have the right to elect the Series A Director pursuant to the Certificate of Designation). In addition, subject to the terms and conditions of the Investor Rights Agreement, the holders of the Preferred Stock shall have demand and piggyback registration rights and the right to participate in certain repurchases of common stock by the Company.

## 10. Stockholders' Equity

### Common Stock Repurchases

In November 2008, the Company's Board of Directors authorized a stock repurchase program for up to \$30.0 million of the Company's shares of common stock, and in August 2011 authorized up to an additional \$30.0 million. The shares may be purchased from time to time in

the open market. During the years ended December 31, 2010 and 2011, the Company purchased an aggregate of 831,773 and 850,031 shares of its common stock for \$12.2 million and \$16.8 million, respectively. The Company did not purchase any shares of its common stock under the stock repurchase program for the year ended December 31, 2012. During the years ended December 31, 2010, 2011 and 2012, the Company also purchased 86,908, 128,678 and 143,789 shares of restricted stock for \$1.3 million, \$3.2 million and \$3.1 million, respectively, which were withheld from employees to satisfy the minimum statutory tax withholding obligations upon the vesting of their restricted stock awards.

## 11. Stock-Based Compensation

The Company's 1999 Stock Option Plan and 2005 Stock Award Plan (the "Plans") provide for the grant of stock options, restricted stock, stock appreciation rights and other equity awards to employees, consultants, officers and directors. The 2005 Stock Award Plan was adopted by the Board of Directors and stockholders in November 2005 in conjunction with the Company's initial public offering. Under the 2005 Stock Award Plan, 8,377,421 shares have been reserved for issuance, subject to annual increases. The Plans are administered by the Compensation Committee of the Board of Directors, which has the authority, among other things, to determine which individuals receive awards pursuant to the Plans, and the terms of the awards. Stock options granted under the Plans have a 10-year term and generally vest annually over a four-year period. Restricted stock awards generally vest annually over a four-year period. The Company's outstanding equity awards include stock option awards and restricted stock awards. At December 31, 2012, 857,056 shares were available for future grants. All shares available for future grant are restricted to the 2005 Stock Award Plan.

The following table sets forth the stock-based compensation expense for equity awards recorded in the consolidated statements of operations for the years ended December 31, 2010, 2011 and 2012 (in thousands):

	Year Ended December 31,		
	2010	2011	2012
Cost of revenues	\$ 1,590	\$ 1,575	\$ 1,514
Sales and marketing	3,253	4,126	4,299
Research and development	1,506	2,079	2,646
General and administration	6,453	7,135	6,413
Total	<u>\$12,802</u>	<u>\$14,915</u>	<u>\$14,872</u>

### Stock Option Awards

The following weighted-average assumptions were used in calculating stock-based compensation for stock option awards granted during the years ended December 31, 2010, 2011 and 2012:

	Year Ended December 31,		
	2010	2011	2012
Stock price volatility	59%	57%	60%
Expected term (years)	6.2	6.1	5.7
Risk-free interest rate	2.6%	2.2%	1.1%
Dividend yield	0%	0%	0%

The summary of stock option activity for the year ended December 31, 2012 is as follows:

	Number of Options	Range of Exercise Prices	Weighted-Average Exercise Price per Share	Weighted-Average Contractual Term	Aggregate Intrinsic Value as of December 31, 2012 (in thousands)
Balance outstanding at January 1, 2012	1,757,240	\$2.46-\$35.98	\$ 17.54		
Granted	1,001,107	12.54-22.93	13.63		
Exercised	(10,391)	2.46-14.23	7.04		
Forfeited or cancelled	(192,013)	2.46-31.03	19.17		
Balance outstanding at December 31, 2012	<u>2,555,943</u>	<u>\$ 2.46-35.98</u>	<u>\$ 15.93</u>	<u>7.3</u>	<u>\$ 8,420</u>
Vested and expected to vest at December 31, 2012	<u>2,456,516</u>	<u>\$ 2.46-35.98</u>	<u>\$ 15.96</u>	<u>7.2</u>	<u>\$ 8,103</u>
Balance exercisable at December 31, 2012	<u>1,021,846</u>	<u>\$ 2.46-35.98</u>	<u>\$ 15.42</u>	<u>5.2</u>	<u>\$ 4,240</u>

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2010, 2011 and 2012 was \$9.10, \$13.03 and \$7.36, respectively. The aggregate fair value of stock options that vested during the years ended December 31, 2010, 2011 and 2012 was \$3.1 million, \$4.8 million and \$3.5 million, respectively. As of December 31, 2012, \$10.8 million of total unrecognized stock-based compensation cost is related to nonvested stock option awards and is expected to be recognized over a weighted-average period of 2.6 years.

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying equity awards and the quoted closing price of the Company's common stock at the last day of the year multiplied by the number of shares that would have been received by the stock option holders had all holders exercised their stock options on the last day of each respective year. The aggregate intrinsic value of options exercised during the years ended December 31, 2010, 2011 and 2012 was \$4.0 million, \$15.5 million and \$105,000, respectively.

The following details the outstanding stock options at December 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding as of 12/31/12	Weighted-Average Remaining Contractual Term	Weighted-Average Exercise Price per Share	Exercisable as of 12/31/12	Weighted-Average Exercise Price per Share
\$2.46—\$9.00	414,312	2.88	\$ 8.77	414,312	\$ 8.77
\$9.01—\$13.00	253,700	9.30	12.55	—	—
\$13.01—\$14.00	570,962	9.09	13.25	40,425	13.19
\$14.01—\$18.00	501,177	7.46	14.85	189,570	14.71
\$18.01—\$23.00	257,496	6.64	19.72	149,621	19.48
\$23.01—\$35.98	558,296	7.93	24.75	227,918	25.83
	<u>2,555,943</u>	<u>7.28</u>	<u>\$ 15.93</u>	<u>1,021,846</u>	<u>\$ 15.42</u>

### Restricted Stock Awards

The fair value of the restricted stock awards is determined based on the quoted closing market price of the Company's common stock on the grant date.

The summary of restricted stock award activity for the year ended December 31, 2012 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
	Underlying Stock Awards	
Balance nonvested at January 1, 2012	1,282,323	\$ 19.55
Awarded	488,333	14.09
Vested	(641,010)	19.90
Forfeited	(149,856)	16.14
Balance nonvested at December 31, 2012	<u>979,790</u>	<u>\$ 17.12</u>

As of December 31, 2012, \$10.9 million of total unrecognized stock-based compensation cost is related to nonvested shares of restricted stock and is expected to be recognized over a weighted-average period of 2.2 years.

## 12. Employee Benefit Plans

The Company sponsors defined-contribution, profit-sharing and other benefit plans in the United States, the United Kingdom and France. Total expenses for the plans for the years ended December 31, 2010, 2011 and 2012 were approximately \$642,000, \$747,000 and \$1.0 million, respectively.

## 13. Income Taxes

For the years ended December 31, 2010, 2011 and 2012, the U.S. and foreign components of loss before income taxes were as follows (in thousands):

	2010	2011	2012
Domestic	\$(1,203)	\$(4,906)	\$(20,848)
Foreign	(2,294)	948	(1,316)
Total loss before income taxes	<u>\$(3,497)</u>	<u>\$(3,958)</u>	<u>\$(22,164)</u>

For the years ended December 31, 2010, 2011 and 2012, income tax provision consisted of the following (in thousands):

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Current expense			
Federal	\$ 580	\$ 26	\$ —
State	245	6	34
Foreign	188	665	696
Total current expense	1,013	697	730
Deferred expense (benefit)			
Federal	(333)	9,282	751
State	(149)	884	94
Foreign	(353)	(244)	(148)
Total deferred expense (benefit)	(835)	9,922	697
Total provision for income taxes	<u>\$ 178</u>	<u>\$10,619</u>	<u>\$1,427</u>

A reconciliation of the Company's effective tax rate to the statutory federal income tax rate for the years ended December 31, 2010, 2011 and 2012 is as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Statutory federal tax rate	35%	35%	35%
State income taxes, net of benefit	—	6	2
Effect of foreign losses	—	(5)	(1)
Non-deductible transaction costs	—	—	(3)
Non-deductible compensation	(28)	(19)	(3)
Other non-deductible expenses	(11)	13	—
Effect of uncertain tax positions	(3)	(5)	(1)
Changes in valuation allowance	2	(293)	(35)
	<u>(5)%</u>	<u>(268)%</u>	<u>(6)%</u>

The provision for income taxes for the years ended December 31, 2010 differed from the expected tax provision computed by applying the U.S. federal statutory rate to income or loss before income taxes primarily due to operating losses in foreign jurisdictions for which no tax benefit is currently available, non-deductible compensation and, to a lesser extent, state income taxes and certain other non-deductible expenses.

The provision for income taxes for the year ended December 31, 2011 differed from the expected tax provision computed by applying the U.S. federal statutory rate to income or loss before income taxes primarily due to the establishment of the valuation allowance and, to a lesser extent, state income taxes and certain non-deductible expenses including stock-based compensation and operating losses in foreign jurisdictions for which no tax benefit is currently available.

In the fourth quarter of 2011, the Company established a net valuation allowance against its U.S. federal and state net deferred tax assets because management concluded that it is more likely than not that it will not realize the tax benefits of its deferred tax assets based on recent operating results and current projections of future losses and, therefore, recorded a valuation allowance to reduce the carrying value of these net deferred tax assets. As a result, the valuation allowance on the Company's net U.S. deferred tax assets increased by \$11.8 million during the year ended December 31, 2011. As of December 31, 2011, the Company maintained a net valuation allowance against certain of its foreign deferred tax assets. The Company has historically maintained a net valuation allowance on deferred tax assets of certain of its foreign subsidiaries because management determined that it is more likely than not that it will not realize the tax benefits of its foreign deferred tax assets and, therefore, recorded a valuation allowance to reduce the carrying value of these foreign deferred tax assets to zero.

The provision for income taxes for the year ended December 31, 2012 differed from the expected tax provision computed by applying the U.S. federal statutory rate to loss before income taxes primarily due to the recognition of the U.S. valuation allowance and, to a lesser extent, state income taxes and certain non-deductible expenses including stock-based compensation and transaction costs and operating losses in foreign jurisdictions for which no tax benefit is currently available.

As of December 31, 2012, the Company maintained a full valuation allowance on its U.S. and certain of its foreign deferred tax assets because management determined that it was more likely than not that it will not realize the tax benefits of these deferred tax assets.

The change in the valuation allowance from the prior year's amount relates primarily to the valuation allowance that was established as part of the iContact acquisition and a capital loss carryforward and net operating losses that the Company identified subsequent to filing of the prior year's financial statements.

The Company's deferred tax components consisted of the following (in thousands):

	December 31,	
	2011	2012
<b>Deferred tax assets:</b>		
NOL carryforwards	\$ 6,425	\$ 27,481
Allowance for doubtful accounts	71	51
Deferred revenue	145	258
Accrued expenses	1,184	2,188
Intangible asset amortization	3,751	—
Stock-based compensation	5,218	6,334
Capital loss carryforward	—	1,787
Other	1,227	1,274
Total deferred tax assets	18,021	39,373
Valuation allowance	(13,654)	(31,005)
Net deferred tax assets	4,367	8,368
<b>Deferred tax liabilities:</b>		
Capitalized software development	(538)	(590)
Depreciation	(2,760)	(3,048)
Goodwill and intangible asset amortization	(3,623)	(8,227)
Other	(236)	(143)
Total deferred tax liabilities	(7,157)	(12,008)
Net deferred tax liability	<u>\$ (2,790)</u>	<u>\$ (3,640)</u>

The Company has not provided for U.S. income taxes on the undistributed earnings and the other outside basis temporary differences of foreign subsidiaries as they are considered indefinitely reinvested outside of the U.S. The Company does not have any undistributed earnings from its foreign subsidiaries as of December 31, 2012.

As of December 31, 2012, the Company had net operating loss (NOL) carryforwards for federal and state tax purposes of approximately \$80.7 million and \$36.2 million, respectively, which will begin to expire in 2025 through 2032. The Company's foreign subsidiaries generated NOL carryforwards of \$11.7 million which will begin to expire in 2015 and may be indefinite lived. Included in these amounts at December 31, 2012 are approximately \$5.4 million in cumulative income tax deductions on the exercise of stock options and the vesting of restricted stock awards. This income tax benefit will be recorded to additional paid-in-capital when realized.

Certain of the Company's federal and state NOL carryforwards are subject to annual limitations under Section 382 of Internal Revenue Code. The limitations imposed under Section 382 will not preclude the Company from realizing these NOLs but may operate to limit their utilization of the NOLs in any given tax year in the event that the Company's federal and state taxable income exceeds the limitation imposed by Section 382.

The exercise and vesting of equity awards has generated income tax deductions in excess of amounts recorded for financial reporting purposes. In 2010, the Company realized a tax benefit from the utilization of NOLs related to stock-based compensation and the exercise and vesting of equity awards. The Company recorded a tax benefit from equity awards to additional paid-in capital for the year ended December 31, 2010. The Company recorded a tax deficiency from equity awards to additional paid-in capital for the years ended December 31, 2011 and 2012, as certain equity awards that vested and were exercised resulted in a shortfall, however, as the Company generated sufficient excess tax benefits in the previous years, the shortfall only reduced the cumulative additional paid-in capital from excess tax benefits. The Company has elected to use the "with and without" method for recognition of excess tax benefits related to equity awards.

As of December 31, 2011 and 2012, the Company had unrecognized tax benefits of \$937,000 and \$933,000, respectively included in other liabilities, including interest and penalties of \$436,000 and \$492,000, respectively. The Company does not believe its unrecognized tax positions will materially change over the next twelve months.

The change in unrecognized tax benefits, excluding accrued interest, for the years ended December 31, 2011 and 2012, were as follows (in thousands):

	December 31,	
	2011	2012
Balance as of beginning of period	\$355	\$501
Additions based on tax positions taken in the current year	36	80
Additions for tax positions of prior years	110	4
Balance as of end of period	<u>\$501</u>	<u>\$585</u>

As of December 31, 2011, the total amount of gross unrecognized tax benefits was \$937,000, if recognized, would favorably impact the Company's effective tax rate. As of December 31, 2012, the total amount of gross unrecognized tax benefits was \$1.1 million if recognized, would favorably impact the Company's effective tax rate. For the years ended December 31, 2011 and 2012, the Company recognized \$33,000 and \$56,000, respectively of interest expense in connection with tax matters which is included in income tax expense.

The Company files income tax returns in U.S. federal jurisdictions and various state and foreign jurisdictions and is subject to U.S. federal, state, and foreign tax examinations for years ranging from 2003 to 2012.

#### 14. Commitments and Contingencies

##### *Leases*

The Company has various non-cancelable operating leases, primarily related to office real estate, that expire through 2023 and generally contain renewal options for up to five years. Lease incentives, payment escalations and rent holidays specified in the lease agreements are accrued or deferred as appropriate as a component of rent expense which is recognized on a straight-line basis over the terms of occupancy. As of December 31, 2011, deferred rent of \$566,000 and \$6.1 million is included in accrued expenses and other liabilities, respectively. As of December 31, 2012, deferred rent of \$752,000 and \$5.7 million is included in accrued expenses and other liabilities, respectively.

The Company also leases computer and office equipment under non-cancelable capital leases and other financing arrangements that expire through 2017.

Future minimum lease payments under non-cancelable operating and capital leases at December 31, 2012 are as follows (in thousands):

	<b>Operating</b>	<b>Capital</b>
	<b>Leases</b>	<b>Leases</b>
2013	\$ 4,257	\$ 191
2014	4,191	150
2015	3,906	110
2016	3,749	81
2017	2,752	1
2018 and thereafter	10,621	—
Total future minimum payments	<u>\$29,476</u>	533
Less amount representing interest		(137)
Less current portion		<u>(118)</u>
Long-term capital lease obligations		<u>\$ 278</u>

Rent expense was \$1.9 million, \$2.9 million and \$5.0 million for the years ended December 31, 2010, 2011, and 2012, respectively.

##### *Purchase Commitments*

The Company entered into agreements with various vendors in the ordinary course of business. As of December 31, 2012, minimum required payments in future years under these arrangements are \$6.1 million, \$2.3 million, \$1.0 million and \$56,000 in 2013, 2014, 2015 and 2016, respectively.

##### *Letters of Credit*

In May 2010, the Company established an irrevocable letter of credit in favor of the landlord of the new corporate headquarters in Beltsville, Maryland in the amount of \$714,000. The letter of credit does not require a compensating balance and is active through May 2023. In accordance with the terms of the lease agreement, the Company is permitted to reduce the letter of credit by approximately \$119,000 annually for each of the first five years commencing May 2012. As of December 31, 2012, the outstanding balance was \$595,000 and no amounts had been drawn against it.

In February 2011, the Company established two letters of credit in favor of its principal landlord in the United Kingdom in the amounts of \$563,000, in the aggregate. The letters of credit do not require a compensating balance and are active through 2016. The letters of credit are denominated in the local currency, and therefore are subject to foreign currency translation adjustments. As of December 31, 2012, the outstanding balances were \$570,000, in the aggregate, and no amounts had been drawn against them.

In March 2012, the Company established an irrevocable letter of credit in favor of its landlord for the iContact office in North Carolina in the amount of \$111,000 which will automatically reduce to \$21,000 on March 1, 2013. The letter of credit does not require a compensating balance and is active through March 2013 but may be renewed through June 30, 2016.

##### *Self-Insurance*

In 2011, the Company enrolled in a self-insured plan for a majority of our U.S. employee health insurance costs, including claims filed and claims incurred but not reported (IBNR) subject to certain stop loss provisions. The Company estimates the liability based upon management's judgment, historical data and the assistance of third-party actuaries in determining an adequate liability for self-insurance claims. The Company's IBNR accrual and expenses may fluctuate due to the number of plan participants, claims activity and deductible limits.

## Litigation and Claims

The Company from time to time is subject to lawsuits, investigations and claims arising out of the ordinary course of business, including those related to commercial transactions, contracts, government regulation and employment matters. In the opinion of management based on all known facts, all such matters are either without merit or are of such kind, or involve such amounts that would not have a material effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably.

### 15. Quarterly Financial Information (Unaudited)

	<u>March 31,</u> <u>2011</u>	<u>June 30,</u> <u>2011</u>	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2011(1)</u>	<u>March 31,</u> <u>2012(2)</u>	<u>June 30,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>December 31,</u> <u>2012</u>
	(Dollars in thousands, except per share data)							
Summary consolidated statement of operations data:								
Revenues	\$ 26,987	\$ 28,482	\$ 28,886	\$ 30,519	\$ 34,853	\$ 43,620	\$ 45,217	\$ 47,114
Gross profit	21,535	23,181	23,519	24,782	27,539	34,920	36,285	38,311
Net loss	(1,858)	(755)	(212)	(11,752)	(10,825)	(5,189)	(3,845)	(3,732)
Net loss per share:								
Basic and diluted	\$ (0.10)	\$ (0.04)	\$ (0.01)	\$ (0.63)	\$ (0.57)	\$ (0.27)	\$ (0.20)	\$ (0.19)
Weighted average shares outstanding used in computing per share amounts:								
Basic and diluted	18,145,461	18,788,747	19,289,740	18,736,771	19,042,761	19,540,700	19,570,459	19,600,644

- (1) During the three months ended December 31, 2011, the Company established the valuation allowance against its U.S. federal and state net deferred tax assets in the amount of \$11.8 million.
- (2) During the three months ended March 31, 2012, the Company incurred \$2.9 million of acquisition-related transaction costs and \$2.1 million of employee severance costs in connection with its acquisition of iContact.

Vocus, Inc.

Schedule II — Valuation and Qualifying Accounts

	<u>Balance Beginning of Period</u>	<u>Charged to Costs or Expenses</u>	<u>Charged to Other Accounts (2)</u>	<u>Deductions</u>	<u>Additions Acquired from Business Combinations (3)</u>	<u>Balance at End of Period</u>
<b>Allowance for doubtful accounts (in thousands):</b>						
Year ended December 31, 2010 (1)	\$ 212	\$ 118	\$ —	\$ (148)	\$ —	\$ 182
Year ended December 31, 2011 (1)	182	408	—	(346)	—	244
Year ended December 31, 2012 (1)	244	408	—	(416)	—	236
<b>Deferred tax valuation allowance (in thousands):</b>						
Year ended December 31, 2010	\$ 2,728	\$ (731)	\$ —	\$ —	\$ —	\$ 1,997
Year ended December 31, 2011	1,997	11,657	—	—	—	13,654
Year ended December 31, 2012	13,654	8,236	2,859	—	6,256	31,005

- (1) Deductions include actual accounts written-off, net of recoveries.  
(2) Charges to other accounts relate primarily to provision to return adjustments.  
(3) Valuation allowance established from the acquisition of iContact.

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## Index to Exhibits

<u>Exhibit Numbers</u>	<u>Exhibits</u>
3.1(5)	Fifth Amended and Restated Certificate of Incorporation.
3.2(17)	Amended and Restated Bylaws.
4.1(3)	Specimen common stock certificate.
4.2(15)	Certificate of Designation of Series A Convertible Preferred Stock as of February 24, 2012
4.3(15)	Investor Rights Agreement by and between Vocus, Inc. and JMI Equity Fund VI, L.P., dated February 24, 2012
10.1(1)	1999 Stock Option Plan.
10.2(1)	Form of Option Agreement under Registrant's 1999 Stock Option Plan.
10.3(4)	2005 Stock Award Plan.
10.4(9)	Form of Option Agreement for executive officers under Registrant's 2005 Stock Award Plan.
10.5(9)	Form of Option Agreement for non-employee directors under Registrant's 2005 Stock Award Plan.
10.6(11)	Deed of Lease dated March 30, 2010 between Indian Creek Investors, LLC and Registrant
10.7(16)	Form of Indemnification Agreement entered into by the Registrant and each of its executive officers and directors.
10.8(2)	License Agreement between the Registrant and PR Newswire Association LLC, dated August 1, 2003, as amended.
10.9(9)	Amended and Restated Agreement between the Registrant and PR Newswire Association, Inc., dated August 1, 2006.
10.10(6)	Form of Employment Agreement for Richard Rudman and Stephen Vintz, and schedule of details omitted therefrom.
10.11(6)	Form of Employment Agreement for Norman Weissberg, and schedule of details omitted therefrom.
10.12(7)	Employment Agreement for William Wagner dated July 17, 2006.
10.13(7)	Indemnification Agreement for William Wagner dated July 17, 2006.
10.14(8)	Asset Purchase Agreement, dated August 4, 2006, among the Registrant, Vocus PRW Holdings LLC, PRWeb, LLC and the sole stockholder of PRWeb International, Inc. and sole owner of PRWeb, LLC.
10.15(12)	Sale and Purchase Agreement dated April 16, 2010 between Registrant and Data Presse SAS.
10.16(13)	Asset Purchase Agreement between the Registrant and North Venture Partners, LLC dated February 24, 2011.
10.17(15)	Agreement and Plan of Merger, dated February 24, 2011.
10.18(15)	Loan Agreement between Bank of America, N.A. and Vocus Inc. dated February 27, 2012
10.19(10)	Form of Restricted Stock Agreement for executive officers under Registrant's 2005 Stock Award Plan.
10.20(10)	Form of Restricted Stock Agreement for non-employee directors under Registrant's 2005 Stock Award Plan.
10.21(14)	Summary of board of directors' compensation.

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**Exhibit  
Numbers**

**Exhibits**

21.1*	List of subsidiaries.
23.1*	Consent of Ernst & Young LLP.
24.1*	Power of Attorney (included on the signature page to this report).
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith

\*\* Furnished herewith

- (1) Incorporated by reference to an exhibit to the Registration Statement on Form S-1 of Vocus, Inc. (Registration No. 333-125834) filed with the Securities and Exchange Commission on June 15, 2005.
- (2) Incorporated by reference to an exhibit to Amendment No. 2 to the Registration Statement on Form S-1 of Vocus, Inc. (Registration No. 333-125834) filed with the Securities and Exchange Commission on August 5, 2005.
- (3) Incorporated by reference to an exhibit to Amendment No. 5 to the Registration Statement on Form S-1 of Vocus, Inc. (Registration No. 333-125834) filed with the Securities and Exchange Commission on November 9, 2005.
- (4) Incorporated by reference to an exhibit to Amendment No. 6 to the Registration Statement on Form S-1 of Vocus, Inc. (Registration No. 333-125834) filed with the Securities and Exchange Commission on December 6, 2005.
- (5) Incorporated by reference to an exhibit to the Registration Statement on Form S-8 of Vocus, Inc. (Registration No. 333-132206) filed with the Securities and Exchange Commission on March 3, 2006.
- (6) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on December 12, 2005.
- (7) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on July 20, 2006.
- (8) Incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2006.
- (9) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2007.
- (10) Incorporated by reference to an exhibit to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2008.
- (11) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on March 30, 2010.
- (12) Incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2010.
- (13) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on March 1, 2011.
- (14) Incorporated by reference to an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2011.
- (15) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on February 28, 2012.
- (16) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on June 29, 2012.
- (17) Incorporated by reference to an exhibit to the Current Report on Form 8-K of Vocus, Inc. filed with the Securities and Exchange Commission on December 18, 2012.

## LIST OF SUBSIDIARIES

<u>Name of Entity</u>	<u>Jurisdiction of Incorporation or Formation</u>
Vocus Acquisition LLC	Maryland
Vocus Deutschland GmbH	Germany
Vocus UK Limited	United Kingdom
Vocus PRW Holdings LLC	Maryland
Vocus NM LLC	Maryland
BDL Media Ltd.	Hong Kong
Vocus Beijing Ltd.	China
Data Presse SAS	France
Archipel Productions, S.A.R.L.	Morocco
Vocus Social Media LLC	California
Vocus Holdings, S.A.R.L.	France
Vocus International BV	Netherlands
Vocus International Financing BV	Netherlands
iContact LLC	Delaware

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-132206, 333-181846, and 333-186209) pertaining to the 2005 Stock Award Plan and 1999 Stock Option Plan of Vocus, Inc. and subsidiaries of our reports dated March 11, 2013, with respect to the consolidated financial statements and schedule of Vocus, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Vocus, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

McLean, Virginia  
March 11, 2013

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Rudman, certify that:

1. I have reviewed this annual report on Form 10-K of Vocus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2013

/s/ Richard Rudman

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Richard Rudman  
Chief Executive Officer, President and Chairman

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Vintz, certify that:

1. I have reviewed this annual report on Form 10-K of Vocus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2013

/s/ Stephen Vintz

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Stephen Vintz  
Executive Vice President, Chief Financial Officer, and  
Treasurer

**CERTIFICATIONS OF  
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Vocus, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard Rudman, Chairman, Chief Executive Officer and President of the Company and Stephen Vintz, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our best knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 11, 2013

/s/ Richard Rudman  
Richard Rudman  
Chief Executive Officer, President and Chairman

Date: March 11, 2013

/s/ Stephen Vintz  
Stephen Vintz  
Executive Vice President, Chief Financial Officer and  
Treasurer