EDGAR pro
by EDGAR Online

MARKETO, INC.

FORM 10-Q
(Quarterly Report)

Filed 08/03/16 for the Period Ending 06/30/16

Address	901 MARINERS ISLAND BLVD., SUITE 500 SAN MATEO, CA 94404
Telephone	650 376-2300
CIK	0001490660
Symbol	MKTO
SIC Code	7372 - Prepackaged Software
Industry	Software & Programming
Sector	Technology
Fiscal Year	12/31

Powered By EDGAR Online
http://www.edgar-online.com
© Copyright 2016, EDGAR Online, Inc. All Rights Reserved.
Distribution and use of this document restricted under EDGAR Online, Inc. Terms of Use.

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

OR

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

For the transition period from to

Commission file number 001-35909

MARKETO, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**56-2558241** (I.R.S. Employer Identification No.)

901 Mariners Island Boulevard, Suite 500
San Mateo, California 94404
(Address of Principal Executive Offices)

(650) 376-2300
(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (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 Exchange Act). YES ☐ NO ☒

There were 45,124,996 shares of the registrant's Common Stock issued and outstanding as of July 27, 2016.

MARKETO, INC.

Table of C ontents

Part I — Financial Information

Item 1.	Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Operations	5
	Condensed Consolidated Statements of Comprehensive Loss	6
	Condensed Consolidated Statements of Cash Flows	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 4.	Controls and Procedures	34

Part II — Other Information

Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 3.	Defaults Upon Senior Securities	56
Item 4.	Mine Safety Disclosures	56
Item 5	Other Information	56
Item 6.	Exhibits	56
Signatures		58

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in, but not limited to, the sections titled "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions and the negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit or gross margin, operating expenses, ability to generate cash flow, and ability to achieve, and maintain, future profitability;
- our anticipated growth and growth strategies and our ability to effectively manage that growth and effect these strategies;
- anticipated trends, growth rates, relative growth rates, areas of investment and challenges in our business and in the markets in which we operate;
- future economic conditions;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base and our relationships with other companies;
- the impact of competition in our industry and innovation by our competitors;
- the impact of any failure to anticipate and adapt to future changes in our industry;
- the evolution of technology affecting our products, services and markets;
- our ability to sell our products and expand internationally;
- our ability to hire and retain necessary qualified employees to expand and scale our operations;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party service providers;
- our ability to adequately protect our brand and other intellectual property;
- our ability to integrate businesses that we have acquired or may acquire;
- the impact of seasonality on our business;
- our ability to successfully execute our R&D program and to continue to develop and innovate product offerings at the same pace;
- the anticipated effect on our business of litigation to which we are or may become a party;
- our ability to stay abreast of new or modified laws, standards and regulations that currently apply or become applicable to our business both in the United States and internationally;
- the effects of security breaches, catastrophic events or failures in our or our customers' products and services on our business;
- the effect of changing privacy laws and privacy-related expectations of customers on our business;

- the expense and administrative workload associated with being a public company;
- our ability to maintain an effective system of internal controls necessary to accurately report our financial results and prevent fraud;
- our liquidity and working capital requirements;
- the estimates and estimate methodologies used in preparing our consolidated financial statements; and
- the future trading prices of our common stock and the impact of securities analysts' reports on these prices; and
- our pending merger discussed below under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Pending Merger."

Forward-looking statements involve known and unknown risks, uncertainties and other factors that 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. We discuss these risks in greater detail in the section entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MARKETO, INC.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 99,504	$ 107,218
Accounts receivable, net	61,992	50,678
Prepaid expenses and other current assets	8,502	9,073
Total current assets	169,998	166,969
Property and equipment, net	24,795	21,323
Goodwill	29,201	29,201
Intangible assets, net	4,978	5,455
Other assets	2,960	2,130
Total assets	$ 231,932	$ 225,078
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,318	$ 4,265
Accrued expenses and other current liabilities	25,177	25,706
Deferred revenue	102,604	91,735
Current portion of credit facility	1,383	2,174
Total current liabilities	136,482	123,880
Credit facility, net of current portion	—	478
Deferred revenue, long-term	156	230
Other liabilities	4,602	2,722
Total liabilities	141,240	127,310
Commitments and contingencies (Note 8)		
Redeemable non-controlling interests (Note 2 and Note 6)	9,888	4,643
Stockholders' equity:		
Common stock	5	4
Additional paid-in capital	365,158	344,727
Accumulated other comprehensive income (loss)	77	(274)
Accumulated deficit	(284,436)	(251,332)
Total stockholders' equity	80,804	93,125
Total liabilities, redeemable non-controlling interests and stockholders' equity	$ 231,932	$ 225,078

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Subscription and support	$ 57,682	$ 43,757	$ 113,030	$ 83,857
Professional services and other	8,313	6,923	15,181	12,823
Total revenue	65,995	50,680	128,211	96,680
Cost of revenue:				
Subscription and support	12,178	9,770	24,488	18,844
Professional services and other	9,058	8,177	18,126	15,514
Total cost of revenue	21,236	17,947	42,614	34,358
Gross profit:				
Subscription and support	45,504	33,987	88,542	65,013
Professional services and other	(745)	(1,254)	(2,945)	(2,691)
Total gross profit	44,759	32,733	85,597	62,322
Operating expenses:				
Research and development	10,178	9,168	21,179	18,863
Sales and marketing	35,096	32,055	72,209	62,087
General and administrative	14,445	8,960	25,317	17,742
Total operating expenses	59,719	50,183	118,705	98,692
Loss from operations	(14,960)	(17,450)	(33,108)	(36,370)
Other income (expense), net	51	97	(86)	617
Loss before provision for income taxes	(14,909)	(17,353)	(33,194)	(35,753)
Provision for income taxes	405	100	807	312
Net loss	(15,314)	(17,453)	(34,001)	(36,065)
Net loss and adjustment attributable to redeemable non-controlling interests (Note 2)	(5,445)	(497)	(5,181)	(43)
Net loss attributable to Marketo	$ (20,759)	$ (17,950)	$ (39,182)	$ (36,108)
Net loss per share of common stock, basic and diluted	$ (0.46)	$ (0.43)	$ (0.88)	$ (0.86)
Shares used in computing net loss per share of common stock, basic and diluted	44,694	42,163	44,343	41,889

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

MARKETO, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$ (15,314)	$ (17,453)	$ (34,001)	$ (36,065)
Other comprehensive income (loss):				
Foreign currency translation adjustments	141	(164)	415	(74)
Total comprehensive loss	(15,173)	(17,617)	(33,586)	(36,139)
Net loss attributable to redeemable non-controlling interests (excluding adjustment to redeemable non-controlling interests)	459	415	897	869
Other comprehensive (income) loss attributable to redeemable non-controlling interests	(18)	45	(64)	42
Comprehensive loss attributable to Marketo	$ (14,732)	$ (17,157)	$ (32,753)	$ (35,228)

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

MARKETO, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss:		
Net loss attributable to Marketo	$ (39,182)	$ (36,108)
Net loss and adjustment attributable to redeemable non-controlling interests	5,181	43
Net loss	(34,001)	(36,065)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,926	6,285
Stock-based compensation expense	20,138	19,007
Deferred income taxes	(136)	247
Provision for allowance for doubtful accounts	613	236
Loss on disposal of fixed assets	9	—
Changes in operating assets and liabilities:		
Accounts receivable	(11,577)	(8,478)
Prepaid expenses and other current assets	1,531	(2,019)
Other assets	25	(861)
Accounts payable	1,600	2,188
Accrued expenses and other current liabilities	(1,682)	2,532
Deferred revenue	10,002	18,283
Other liabilities	787	77
Net cash (used in) provided by operating activities	(4,765)	1,432
Cash flows from investing activities:		
Increase in restricted cash	(735)	(215)
Purchase of property and equipment	(6,770)	(8,324)
Capitalized software development	(1,149)	(772)
Net cash used in investing activities	(8,654)	(9,311)
Cash flows from financing activities:		
Proceeds from issuance of common stock upon exercise of stock options	3,488	3,018
Proceeds from the issuance of common stock issued under the employee stock purchase plan	2,716	2,885
Investment from redeemable non-controlling interests	—	1,678
Repurchase of unvested common stock from terminated employees	—	(32)
Withholding taxes remitted for the net share settlement of equity awards	(65)	(74)
Repayment of debt	(1,270)	(1,346)
Net cash provided by financing activities	4,869	6,129
Effect of foreign exchange rate changes on cash and cash equivalents	836	(449)
Net decrease in cash and cash equivalents	(7,714)	(2,199)
Cash and cash equivalents — beginning of period	107,218	112,644
Cash and cash equivalents — end of period	$ 99,504	$ 110,445
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 42	$ 97
Cash paid for income taxes	590	116
Supplemental disclosure of noncash investing and financing activities:		
Vesting of early exercise options	34	82
Unpaid and accrued fixed assets	2,573	1,252
Property and equipment acquired through tenant improvement allowance	1,146	211

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

MARKETO, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. The Company and Summary of Significant Accounting Policies and Estimates

Business

Marketo, Inc. (Marketo or the Company) was incorporated in the state of California on January 20, 2006. The Company was reincorporated in the state of Delaware on December 17, 2009. The Company operates from its headquarters in San Mateo, California and has operating subsidiaries in Ireland, Australia, Israel, Japan and the United Kingdom.

Marketo is the provider of a leading cloud-based Engagement Marketing Platform that is purpose-built to enable organizations ranging from small and medium businesses (SMBs) to the world's largest enterprises to engage in modern relationship marketing. The Company's platform enables the effective execution, management and analytical measurement of online, social, mobile and offline marketing activities and customer interactions in today's data-centric, multi-channel business environment. The Company has built a rich set of applications across ten categories that run on the Engagement Marketing Platform, as follows: Marketing Automation, Email Marketing, Mobile Engagement, Social Marketing, Digital Ads, Web Personalization, Marketing Analytics, Predictive Content, Marketing Calendar and Sales Insight. The Company generally offers its services on an annual subscription basis with quarterly or annual payment terms.

Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes of the Company reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The unaudited condensed consolidated financial statements include the accounts of Marketo and its wholly owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the entire year ending December 31, 2016. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission (SEC). These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements and related notes presented in the Company's Annual Report on Form 10-K filed with the SEC on March 4, 2016. There have been no material changes in the Company's significant accounting policies from those that were disclosed in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2015.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Such management estimates and assumptions include the estimated selling price for the various elements in our customer contracts, the allowance for doubtful accounts, stock-based compensation expense, useful lives of intangible assets, redemption value of redeemable non-controlling interests and the valuation of deferred tax assets and acquired intangible assets. Actual results could differ materially from those estimates, and such differences could be material to the financial statements and affect the results of operations reported in future periods.

Pending Merger

On May 27, 2016, Marketo entered into an Agreement and Plan of Merger (Merger Agreement) with Milestone Holdco, LLC, a Delaware limited liability company (Parent), and Milestone Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub), providing for the merger of Merger Sub with and into the Company (the Merger), with the Company surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Vista Equity Partners Fund VI, L.P., a Delaware limited partnership (Vista). Parent will acquire all outstanding shares of Marketo common stock for a total value of approximately $1.79 billion.

Consummation of the Merger is subject to customary closing conditions, including, but not limited to, the: (i) requisite approvals by the Company's stockholders; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act); and (iii) absence of any law or order restraining, enjoining or otherwise prohibiting the Merger. On June 22, 2016, the U.S. Federal Trade Commission notified Marketo that early termination of the waiting period under the HSR Act was granted, effective immediately. On July 28, 2016, Marketo held a special meeting of stockholders (the Special Meeting) at Marketo's principal executive offices in San Mateo, CA to vote on the proposals described in the Company's definitive proxy statement filed with the Securities and Exchange Commission on June 29, 2016 and first mailed to Marketo's stockholders on June 29, 2016. At the Special Meeting, stockholders approved the proposal to adopt the Merger Agreement.

The Company and Vista Funds currently anticipate the closing of the transaction to occur in the third calendar quarter of 2016.

The Company has recorded $4.0 milllion of transaction costs related to this transaction in the three and six months ended June 30, 2016.

Recent Accounting Pronouncements

In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU addresses certain implementation issues that have surfaced since the issuance of ASU 2014-09 in May 2014. The ASU provides guidance in identifying performance obligations and determining the appropriate accounting for licensing arrangements. The amendments in this ASU will be effective for the Company beginning January 1, 2018, and for interim periods therein. The Company is in the process of assessing the impact that adoption of this new standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 further clarifies principal and agent relationships within ASU 2014-09. The amendment will be effective for the Company beginning January 1, 2018, including interim reporting periods within that reporting year. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient — expected term (nonpublic only); and (7) intrinsic value (nonpublic only). The ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption is permitted. The Company has elected not to early adopt. The Company is evaluating the impact of the updated guidance on the Company's consolidated financial statements and related disclosures and has not selected a transition method.

In February 2016, the FASB issued ASU 2016-02, Leases, which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase lessees' reported assets and liabilities — in some cases very significantly. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. This ASU is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is evaluating the impact of the updated guidance on the Company's consolidated financial statements and related disclosures and has not determined if it will early adopt.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer. In July 2015, the FASB approved a one year deferral of the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP. In accordance with the deferral, this guidance will be effective for the Company, beginning January 1, 2018, and can be applied either retrospectively to each period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption is permitted beginning January 1, 2017. The Company has elected not to early adopt. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements.

2. Joint Venture

In February 2014, the Company entered into an agreement with SunBridge Corporation and Dentsu Digital Inc. (the successor entity to Dentsu eMarketing One K.K.) (collectively, the Investors) to engage in the investment, organization, management and operation of a Japanese subsidiary (Marketo KK) of the Company that is focused on the sale of the Company's products and services in Japan. The Investors initially contributed approximately $2.0 million (200,000,000 Japanese Yen) in cash in exchange for 35.4% of the outstanding common stock of Marketo KK. Furthermore, under the agreement, the Company and the Investors agreed to subscribe to additional shares by contributing additional funding of approximately $2.0 million (237,480,955 Japanese Yen) and approximately $1.7 million (200,000,000 Japanese Yen), respectively, which occurred in March 2015. As of June 30, 2016, the Company and the Investors owned approximately 60.1% and 39.9% of the outstanding common stock in Marketo KK, respectively. See Note 6 for the activity in the redeemable non-controlling interests balance.

Twenty percent of the common stock held by the Investors may be callable by the Company or puttable by the Investors beginning on the seventh anniversary of the initial capital contribution by the Investors. This percentage increases to forty percent and one hundred percent on the eighth and tenth anniversary, respectively. Should the call or put option be exercised, the redemption value would be determined based on a prescribed formula derived from the relative revenues of Marketo KK and the Company and may be settled, at the Company's discretion, with Company stock (with no limit on the shares that may be issued) or cash. Additionally, the common stock held by the Investors may be callable or puttable following a change of control of the Company. The redeemable non-controlling interests in Marketo KK are classified outside of permanent equity in the Company's unaudited condensed consolidated balance sheet as of June 30, 2016, primarily due to the put right available to the redeemable non-controlling interest holders in the future which may be settled in cash or common stock of the Company. The balance of the redeemable non-controlling interests is reported at the greater of the initial carrying amount adjusted for the redeemable non-controlling interest's share of earnings, or its estimated redemption value. Accordingly, at June 30, 2016 the Company adjusted the redeemable non-controlling interests to its expected redemption value, resulting in a $5.9 million reduction to additional paid-in-capital.

The following table reconciles net loss and adjustment attributable to redeemable non-controlling interests for periods indicated below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss attributable to redeemable non-controlling interests (before adjustment to redeemable non-controlling interests)	$ 459	$ 415	$ 897	$ 869
Adjustment to redeemable non-controlling interests	(5,904)	(912)	(6,078)	(912)
Net loss and adjustment attributable to redeemable non-controlling interests	$ (5,445)	$ (497)	$ (5,181)	$ (43)

3. Fair Value of Financial Instruments

The Company measures certain financial assets at fair value on a recurring basis based on a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

As of June 30, 2016 and December 31, 2015, financial assets measured at fair value on a recurring basis were comprised of money market funds and certificates of deposit included within cash and cash equivalents.

The fair value of these financial assets was determined using the following inputs for the periods presented:

	June 30, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(in thousands)					
Money market funds	$ 80,769	$ —	$ —	$ 93,108	$ —	$ —
Certificates of deposit	—	25	—	—	25	—
Total	$ 80,769	$ 25	$ —	$ 93,108	$ 25	$ —

4. Balance Sheet Components

Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Cash	$ 18,710	$ 14,085
Cash equivalents:		
Money market funds	80,769	93,108
Certificates of deposit	25	25
Total cash equivalents	80,794	93,133
Cash and cash equivalents	$ 99,504	$ 107,218

Accounts Receivable, Net

Accounts receivable, net consists of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Accounts receivable	$ 62,952	$ 51,235
Allowance for doubtful accounts	(960)	(557)
Accounts receivable, net	$ 61,992	$ 50,678

Property and Equipment, Net

Property and equipment, net consists of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Computer equipment	$ 33,526	$ 28,159
Software	3,525	3,498
Office furniture	3,518	2,952
Leasehold improvements	8,754	7,120
Construction in progress	3,890	2,808
Total property and equipment	53,213	44,537
Less accumulated depreciation	(28,418)	(23,214)
Property and equipment, net	$ 24,795	$ 21,323

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Accrued bonuses, commissions and wages	$ 9,631	$ 12,343
Accrued ESPP	2,254	2,387
Accrued vacation	4,713	3,739
Accrued marketing expenses	1,203	1,289
Accrued other	7,376	5,948
Total	$ 25,177	$ 25,706

5. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following as of June 30, 2016 and December 31, 2015:

	June 30, 2016	Weighted Average Remaining Useful Life	December 31, 2015	Weighted Average Remaining Useful Life
	(in thousands)	(in years)	(in thousands)	(in years)
Developed technology	$ 6,050	1.4	$ 6,050	1.9
Domain names	950	2.5	950	2.8
Customer relationships	1,600	0.5	1,600	0.8
Non-compete agreements	580	1.5	580	2.0
Capitalized software development costs	5,330	1.4	3,980	1.2
	14,510		13,160	
Less accumulated amortization	(9,532)		(7,705)	
Intangible assets, net	4,978		5,455	
Goodwill	29,201		29,201	
Goodwill and intangible assets, net	$ 34,179		$ 34,656	

Amortization expense for the periods indicated below is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amortization expense	$ 870	$ 892	$ 1,826	$ 1,628

Based on the carrying amount of intangible assets as of June 30, 2016, the estimated future amortization is as follows (in thousands):

	Six Months Ending December 31,	Years Ending December 31,				
	2016	2017	2018	2019	2020	Total
Developed Technology	$ 754	$ 1,407	$ —	$ —	$ —	$ 2,161
Domain Names	88	100	100	29	—	317
Customer Relationships	107	—	—	—	—	107
Non-Compete Agreements	75	144	—	—	—	219
Capitalized Software Development Costs	894	1,025	255	—	—	2,174
Total	$ 1,918	$ 2,676	$ 355	$ 29	$ —	$ 4,978

6. Stockholders' Equity and Redeemable Non-controlling Interests

The following table summarizes the activity in stockholders' equity and redeemable non-controlling interests for the period indicated below (in thousands):

	Total Stockholders' Equity	Redeemable Non-controlling Interests
Balance as of December 31, 2015	$ 93,125	$ 4,643
Issuance of common stock upon exercise and early exercise of stock options	3,456	—
Issuance of common stock under employee stock purchase plan	2,716	—
Adjustment to redemption value	(6,078)	6,078
Withholding taxes for the net share settlement of equity awards	(62)	—
Vesting of early exercised options	34	—
Stock-based compensation expense	20,366	—
Net loss	(33,104)	(897)
Foreign currency translation adjustments	351	64
Balance as of June 30, 2016	$ 80,804	$ 9,888

For the six months ended June 30, 2016, the Company incurred $20.1 million of stock-based compensation expense and capitalized stock-based compensation expense of $0.3 million associated with the development of the Company's internal-use software projects.

7. Credit Facility

In May 2012, the Company entered into a loan and security agreement with a bank related to an equipment facility providing the Company with an equipment line of up to $4.0 million. In June 2013, the Company entered into a first amendment to the loan and security agreement, which provided an additional line of credit for advances of up to $4.5 million. The interest rate associated with both lines of credit is the greater of 4% or three-quarters of a percentage point above the prime rate, as determined on the applicable funding date. For each equipment advance, the Company paid interest only for approximately nine months. Subsequently, the Company is obligated to make thirty-six equal monthly payments of principal and interest. The loan is secured by a security interest on substantially all of the Company's assets, including the equipment purchased with the advances, and excludes the Company's intellectual property. The loan and security agreement contains customary events of default and provides that during the existence of an event of default, interest on the obligations could be increased by 5%.

In May 2014, the Company entered into a second amendment to the loan and security agreement to amend various covenants. Under the second amendment the Company is required to maintain compliance with certain financial covenants, which include maintaining a minimum cash balance with the bank and various reporting covenants. As of June 30, 2016, the Company was in compliance with these covenants. As of June 30, 2016 and December 31, 2015, the outstanding loan balance was $1.4 million and $2.7 million, respectively.

There were no material changes in the Company's commitments under the outstanding loan balance, which was disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015.

8. Commitments and Contingencies

Commitments

Except as set forth below, there were no material changes in the Company's commitments under contractual obligations, as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015.

In March 2016, the Company entered into a definitive lease agreement whereby the Company extended its current lease facilities in San Mateo through 2022 and expanded its office space by 33,779 square feet. The Company's incremental future minimum lease payments under this extension are approximately $36.7 million, payable over seventy months. In conjunction with the amendment to the San Mateo lease agreement, the Company entered into a letter of credit of approximately $0.7 million with a bank as security for the amended lease agreement.

In May 2016, the Company entered into a definitive lease agreement whereby the Company leases approximately 17,227 square feet of office space in Dublin, Ireland. The Company's future minimum lease payments under this agreement are approximately $2.8 million, payable over the sixty month lease term.

As of June 30, 2016, future minimum operating lease payments are as follows (in thousands):

	Minimum Lease Payment
2016	$ 3,990
2017	9,226
2018	9,678
2019	9,389
2020	8,929
Thereafter	14,800
Total	$ 56,012

Contingencies

On July 5, 2016, a purported stockholder class action lawsuit captioned Porwal v. Marketo, Inc. et al., Case No. 16CIV00265, was filed in Superior Court of the State of California, County of San Mateo against Marketo, its directors, Vista, Parent, and Merger Sub. The lawsuit alleges, generally, that Marketo's directors breached their fiduciary duties to Marketo stockholders by seeking to sell Marketo through an allegedly defective process, for an unfair price, and on unfair terms, and that the other defendants aided and abetted those purported breaches. The lawsuit also alleges that defendants have failed to disclose all material facts concerning the proposed Merger to stockholders. The lawsuit seeks, among other things, equitable relief that would enjoin the consummation of the proposed Merger, damages, rescission of the proposed Merger to the extent it is consummated, and attorneys' fees and costs.

On July 12, 2016, a purported stockholder class action lawsuit captioned Rosati v. Marketo, Inc. et al., Case No. 3:16-cv-3907, was filed in the United States District for the Court Northern District of California against Marketo and its directors. The lawsuit alleges, generally, that Marketo and its directors violated Section 14(a) and Rule 14a-9 promulgated thereunder by the SEC pursuant to Section 14 under the Securities Exchange Act of 1934, as amended. The lawsuit also alleges that defendants have failed to disclose all material facts concerning the proposed Merger to stockholders. The lawsuit also alleges that Marketo's directors breached their fiduciary duties to Marketo stockholders by conducting an inadequate sales process and agreeing to a transaction that provides Marketo's stockholders with inadequate consideration. On July 21, 2016, the plaintiff filed a request for a Temporary Restraining Order seeking to enjoin the shareholder vote. On July 26, 2016, the Court denied plaintiff's request. The lawsuit seeks, among other things, equitable relief that would enjoin the consummation of the proposed Merger, damages, rescission of the proposed Merger to the extent it is consummated, and attorneys' fees and costs.

The Company does not currently believe a loss from the above lawsuits are probable or estimable.

9. Stockholders' Equity and Stock-Based Compensation

Common Stock Authorized and Outstanding

As of June 30, 2016, the Company was authorized to issue 1,000,000,000 common shares with a par value of $0.0001 per share and 20,000,000 convertible preferred shares with a par value of $0.0001 per share. As of June 30, 2016, the Company had approximately 45.0 million shares of common stock issued and outstanding.

Summary of Stock Option Activity

A summary of the Company's stock option activity under all stock option plans and related information for six months ended June 30, 2016 is as follows:

	Number of Stock Options Outstanding (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2015	3,777	$ 13.55	6.61	$ 65,915
Granted	91	30.56		
Exercised	(692)	5.04		
Cancelled/forfeited	(206)	28.80		
Balance as of June 30, 2016	2,970	14.99	6.30	62,379
Exercisable as of June 30, 2016	2,558	11.60	5.99	61,502
Vested and expected to vest as of June 30, 2016	2,903	$ 14.67	6.26	$ 61,835

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the Company's closing price of $34.82 as of June 30, 2016 for options that were in-the-money as of that date.

Option awards generally vest over a four-year period, with 25% vesting one year from date of grant and monthly thereafter. Stock options granted under the Company's 2006 Plan provided option holders with an early exercise provision, where in the event of termination any exercised and unvested shares are subject to repurchase by the Company at the original purchase price. This right of repurchase lapses as the option vests. Options exercisable as of June 30, 2016 include options that are exercisable prior to vesting.

The weighted average grant date fair value of options granted and the total intrinsic value of options exercised are as follows (in thousands, except weighted average grant date fair value):

	Six Months Ended June 30,	
	2016	2015
Weighted average grant date fair value of options granted	$ 14.74	$ 12.55
Total intrinsic value of options exercised (in thousands)	$ 15,127	$ 16,706

The total estimated grant date fair value of options vested during the six months ended June 30, 2016 was approximately $4.7 million.

Determining Fair Value of Stock Options

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model. The following assumptions were used to estimate the fair value of options granted to employees:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected term (in years)	6	6	6	6
Risk-free interest rate	1.52% - 1.55%	1.70%	1.52% - 1.55%	1.70%
Expected volatility	47.99%- 53.83%	44.80%	47.99%- 53.83%	44.80%
Expected dividend rate	0%	0%	0%	0%

Restricted Stock Units

A summary of the Company's Restricted Stock Units (RSUs) activity and related information for the six months ended June 30, 2016 is as follows:

	Number of RSUs (in thousands)	Weighted Average Grant Date Fair Value
Balance as of December 31, 2015	3,037	$ 32.84
RSUs Granted	1,397	18.01
RSUs Vested	(484)	35.61
RSUs Cancelled/Forfeited	(366)	28.67
Balance as of June 30, 2016	3,584	$ 27.12

RSUs are generally subject to a time-based vesting condition that ranges from 3 to 4 years.

The weighted average grant date fair value of RSUs granted and the total intrinsic value of RSUs that vested during the periods presented were as follows (in thousands, except weighted average grant date fair value):

	Six Months Ended June 30,	
	2016	2015
Weighted average grant date fair value of RSUs granted	$ 18.01	$ 33.65
Total intrinsic value of vested RSUs (in thousands)	$ 8,348	$ 8,472

Market Stock Units

During the first quarter of 2015 and 2016 the Company granted market stock units (MSUs) to its executive officers under the Company's 2013 Equity Incentive Plan. Each MSU award granted contains three separate tranches. The actual number of MSUs eligible to vest in each tranche is based on the performance of the Company's stock price relative to the performance of the NASDAQ Composite Index over the vesting period of each tranche, which ranges from one to three years. MSU participants have the ability to receive up to 100% of the target number of shares in tranche 1 and 2 and up to 150% of the target number of shares in tranche 3.

A summary of the Company's MSU activity and related information for the six months ended June 30, 2016 is as follows:

	Number of Shares Underlying MSUs (in thousands)	Weighted Average Grant Date Fair Value
Balance as of December 31, 2015	193	$ 37.53
MSUs Granted	220	9.67
MSUs Vested	(36)	27.30
MSUs Cancelled/Forfeited	(28)	27.30
Balance as of June 30, 2016	349	$ 21.82

The fair value of each MSU award is determined by multiplying the fair value per share by the underlying number of shares. The fair value per share was determined on the grant date using the Monte Carlo valuation methodology. The fair value per share for each MSU award granted during the six months ended June 30, 2016 by tranche were as follows:

Grant Date	MSUs Granted	Tranche 1	Tranche 2	Tranche 3	MSU FV
February 17, 2016	136,350	$ 1.36	$ 1.98	$ 6.30	$ 9.64
February 18, 2016	65,000	1.15	1.76	5.77	8.68
March 7, 2016	18,835	2.19	2.80	8.29	13.28

The Company amortizes the fair value of each MSU award using the graded-vesting method, adjusted for estimated forfeitures. Stock-based compensation expense associated with participants who fulfill their requisite service period is not reversed even if the performance conditions are not met. However, stock-based compensation expense is reversed for participants who forfeit their MSU awards prior to fulfilling their requisite service period.

The fair value of the MSUs granted during the three and six months ended June 30, 2016 and 2015 were estimated using the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected term (in years)	N/A	N/A	3	3
Risk-free interest rate	N/A	N/A	0.86% - 1.05%	0.99%
Expected volatility	N/A	N/A	45%	39%
Expected dividend rate	N/A	N/A	0%	0%

The weighted average grant date fair value of MSUs granted and the total intrinsic value of MSUs that vested during the periods presented were as follows (in thousands, except weighted average grant date fair value):

	Six Months Ended June 30,	
	2016	2015
Weighted average grant date fair value of MSUs granted	$ 9.67	$ 37.53
Total intrinsic value of vested MSUs (in thousands)	$ 540	$ —

Employee Stock Purchase Plan

The assumptions used to value employee stock purchase rights under the Black-Scholes model during the six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected term (in months)	6	6	6	6
Risk-free interest rate	0.42%	0.07%	0.42%	0.07%
Expected volatility	41%	39%	41%	39%
Expected dividend rate	0%	0%	0%	0%

During the first six months ended June 30, 2016, the Company issued approximately 0.2 million shares of common stock under the Company's Employee Stock Purchase Plan (ESPP) with an average purchase price of $12.65 per share.

Stock Compensation Expense

The stock-based compensation expense included in operating results was allocated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of subscription and support revenue	$ 789	$ 626	$ 1,551	$ 1,245
Cost of professional services and other revenue	1,174	1,100	2,386	2,037
Research and development	1,859	1,639	3,664	3,955
Sales and marketing	3,217	3,404	6,291	6,206
General and administrative	3,099	2,957	6,246	5,564
Total stock-based compensation expense	$ 10,138	$ 9,726	$ 20,138	$ 19,007

For the six months ended June 30, 2016, the Company incurred expenses of $3.4 million for options, $14.6 million for RSUs, $1.5 million for MSUs and $0.9 million for ESPP shares. Additionally, the Company capitalized stock-based compensation expense of $0.3 million associated with the Company's internal-use software projects.

As of June 30, 2016, total unrecognized compensation cost related to unvested awards not yet recognized under all equity compensation plans, adjusted for estimated forfeitures, was as follows:

	June 30, 2016	
	Unrecognized Expense (in thousands)	Average Expected Recognition Period (in years)
Stock options	$ 7,565	1.32
Restricted stock units and market stock units	67,308	2.77
Employee stock purchase plan	208	0.13
Total unrecognized stock-based compensation expense	$ 75,081	2.62

10. Net Loss per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture as they are not deemed to be issued for accounting purposes. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, RSUs, MSUs and ESPP shares, to the extent they are dilutive.

The following table sets forth the computation of the Company's basic and diluted net loss per share of common stock under the two-class method attributable to common stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Numerator:				
Net loss attributable to Marketo	$ (20,759)	$ (17,950)	$ (39,182)	$ (36,108)
Denominator:				
Weighted-average common shares outstanding	44,701	42,333	44,361	42,075
Less: Weighted-average unvested common shares subject to repurchase or forfeiture and shares held in escrow	(7)	(170)	(18)	(186)
Weighted-average shares used in computing net loss per share of common stock, basic and diluted	44,694	42,163	44,343	41,889
Net loss per share of common stock, basic and diluted	$ (0.46)	$ (0.43)	$ (0.88)	$ (0.86)

The Company applied the two-class method to calculate its basic and diluted net loss per share of common stock, as its common stock subject to repurchase and common stock held in escrow are participating securities. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders.

However, the two-class method does not impact the net loss per share of common stock as the Company was in a loss position for each of the periods presented and preferred shareholders, holders of common stock subject to repurchase and common stock held in escrow do not have to participate in losses.

Additionally, since the Company was in a loss position for each of the periods presented, diluted net loss per share is the same as basic net loss per share for each period, as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities that were excluded from the diluted per share calculation because they would have been anti-dilutive were as follows:

	As of June 30,	
	2016	2015
	(in thousands)	
Stock options to purchase common stock	2,970	4,498
Employee stock purchase plan	207	110
Common stock held in escrow	—	22
Common stock subject to repurchase	10	23
Restricted stock units and market stock units	3,933	3,175
	7,120	7,828

11. Income Taxes

The provision for income taxes was $0.4 million and $0.1 million for the three months ended June 30, 2016 and 2015, respectively and $0.8 million and $0.3 million for the six months ended June 30, 2016 and 2015, respectively. The provision for income taxes consisted primarily of foreign and state income taxes.

For the three and six months ended June 30, 2016 and 2015, the provision for income taxes differed from the statutory amount primarily due to unbenefited federal, state, and certain foreign losses with minor offsets for certain state and foreign taxes currently payable. The Company realized no benefit for current year losses due to maintaining a full valuation allowance against the U.S. and certain foreign net deferred tax assets.

The realization of tax benefits of deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the available objective evidence, the Company does not believe it is more likely than not that the U.S. federal and state and certain foreign net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against the domestic net deferred tax assets and certain foreign jurisdictions with net deferred tax assets as of June 30, 2016 and December 31, 2015. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance. During the six months ended June 30, 2016, there have been no material changes to the total amount of unrecognized tax benefits.

12. Segment Information and Information about Geographic Areas

The accounting principles guiding disclosures about segments of an enterprise and related information establishes standards for the reporting by business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method of determining which information is reported is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance. The Company's chief operating decision maker (CODM) is considered to be the Company's Chief Executive Officer (CEO). The CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. As such, the Company is determined to be operating in one business segment.

All of the Company's principal operations and decision-making functions are located in the United States.

Revenue

Revenue by geography is based on the shipping address of the customer. The following table presents the Company's revenue by geographic region for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
United States	$ 54,330	$ 43,144	$ 106,190	$ 82,409
EMEA	5,084	3,380	9,669	6,532
Other	6,581	4,156	12,352	7,739
Total	$ 65,995	$ 50,680	$ 128,211	$ 96,680

No single customer accounted for more than 10% of the Company's total revenue during the three and six months ended June 30, 2016 and 2015, respectively. No single customer accounted for more than 10% of accounts receivable as of June 30, 2016 and December 31, 2015.

Long-lived Assets

The following table sets forth the Company's long-lived assets by geographic areas as of the periods presented:

	June 30, 2016	December 31, 2015
	(in thousands)	
United States	$ 22,106	$ 19,508
EMEA	1,469	327
Other	1,220	1,488
Total	$ 24,795	$ 21,323

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed on March 4, 2016. As discussed in the section above titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below.

Overview

We are the provider of a leading cloud-based Engagement Marketing Platform that is purpose-built to enable organizations ranging from small and medium businesses (SMBs) to the world's largest enterprises to engage in modern relationship marketing. Our platform enables the effective execution, management and analytical measurement of online, social, mobile and offline marketing activities and customer interactions in today's data-centric, multi-channel business environment. We have built a rich set of applications across ten categories that run on our Engagement Marketing Platform, as follows: Marketing Automation, Email Marketing, Mobile Engagement, Social Marketing, Digital Ads, Web Personalization, Marketing Analytics, Predictive Content, Marketing Calendar and Sales Insight.

We deliver our solutions entirely through a multi-tenant cloud-based, or Software as a Service (SaaS), architecture which customers can configure to their specific needs. We initially focused our selling efforts on the SMB market, but beginning in late 2010, to address growing enterprise demand, we began to invest in an enterprise sales organization. We define the SMB market as companies with fewer than 1,500 employees and the enterprise market as companies with 1,500 or more employees.

Our Engagement Marketing Platform offers a unique blend of power and speed that is appealing to business to business (B2B) and business to consumer (B2C) customers across both large enterprises and SMBs. We market and sell our products directly and through select distribution partners. Our client base is diverse, with 4,761 customers as of June 30, 2016 across a wide range of industries including business services, consumer, financial services, healthcare, manufacturing, media, technology and telecommunications. During the three months ended June 30, 2016 and 2015, our 20 largest customers accounted for approximately 11% and 13% of our total revenue, respectively. During the six months ended June 30, 2016 and 2015, our 20 largest customers accounted for approximately 11% and 12% of our total revenue, respectively.

The percentage of our subscription and support revenue from enterprise customers was 31% and 30% during the three months ended June 30, 2016 and 2015, respectively, and 31% and 30% during the six months ended June 30, 2016 and 2015, respectively.

Many of the strategies and business processes that our solution supports are new and rapidly evolving, and there is relatively little accumulated experience in many of our prospective customers about how best to take advantage of modern relationship marketing. We therefore complement our products with an extensive network of resources to assist our customers with the strategic and practical use of our solutions. Among these resources are expert consulting services, peer-to-peer discussion communities, a library of pre-built marketing programs and templates, rich content on marketing best practices and an integrated ecosystem of partner products. We collectively refer to this extended set of resources as the Marketo Marketing Nation.

Our direct sales force has separate sales teams for the enterprise market and for the SMB market. Within our direct sales force, we also have a team that is responsible for selling to existing customers who may renew their subscriptions, increase their usage of our platform and applications, acquire additional applications from our product family, or broaden the deployment of our solutions across their organizations. In addition, we utilize distributors, agencies, resellers and OEMs, who resell or use our platform to provide managed marketing services to their end customers. To date, substantially all of our revenue has been derived from direct sales.

We provide our solutions on a subscription basis, and we generated total revenue of $66.0 million and $50.7 million for the three months ended June 30, 2016 and 2015, respectively, and $128.2 million and $96.7 million for the six months ended June 30, 2016 and 2015, respectively. We derive most of our revenue from subscriptions to our cloud-based software and related customer support services. Subscription and support revenue accounted for 87% and 86% of our total revenue during each of the three months ended June 30, 2016 and 2015, respectively, and 88% and 87% of our total revenue during the six months ended June 30, 2016 and 2015, respectively. We price our products based on various customer usage measures, including the number of records in each customer's database and the number of user seats authorized to access our service. Our subscription contracts are typically one year in length, but can range from one year to three years in length.

Professional services and other revenue accounted for 13% and 14% of our total revenue during the three months ended June 30, 2016 and 2015, respectively, and 12% and 13% of our total revenue during the six months ended June 30, 2016 and 2015, respectively. Our solution is designed to be ready to use immediately upon provisioning of a new customer subscription. However, we believe that our customers' success is enhanced by the effective use of marketing strategies performed with our software, which we foster primarily through the sale and delivery of expert services that educate our customers on the best use of our solutions as well as assist in the implementation of our solutions. In addition, some of our customers require services to support integrating their existing systems with our solutions. Enterprise customers typically exhibit a higher demand for all of these services. We also partner with third-party consulting organizations that provide similar services to our customers in connection with their use of our solutions. One of our strategies is to increase the amount of services delivered by such third-party consulting organizations, and we have had success growing the capabilities of our third-party partners. We expect to see our professional services revenue grow at a slightly slower rate than our subscription revenue and to not increase significantly as a percentage of total revenue.

We generate the majority of our revenue in the United States; however, we are focused on growing our international business. Revenue generated from our international customers was approximately 18% and 15% of our total revenue during the three months ended June 30, 2016 and 2015, respectively, and 17% and 15% of our total revenue during each of the six months ended June 30, 2016 and 2015, respectively.

We have focused on rapidly growing our business and plan to continue to invest in growth. We expect our cost of revenue and operating expenses to continue to increase in absolute dollars in future periods. Marketing and sales expenses are expected to increase as we continue to expand our sales teams, increase our marketing activities and grow our international operations. Research and development expenses are expected to increase in absolute dollars to support the enhancement of our existing products and the development of new products. We also intend to invest in maintaining a high level of customer service and support which we consider critical for our continued success. We plan to continue investing in our data center infrastructure and services capabilities in order to support continued future customer growth. Considering our plans for investment, we do not expect to be profitable in the near term and, in order to achieve profitability, we will need to grow revenue at a rate faster than our investments in cost of revenue and operating expenses.

We had net losses attributable to Marketo of $20.8 million and $18.0 million for the three months ended June 30, 2016 and 2015, respectively, and $39.2 million and $36.1 million for the six months ended June 30, 2016 and 2015, respectively, primarily due to increased investments in our current and projected future growth.

Since our inception, we financed our operations through cash collected from customers as well as preferred equity financings, our initial public offering (IPO) and concurrent private placement completed in May 2013, and our follow-on public offering completed in September 2013. We also maintain a credit facility. As of June 30, 2016, we had outstanding borrowings of $1.4 million under this facility.

Pending Merger

On May 27, 2016, Marketo entered into a Merger Agreement with Milestone Holdco, LLC, a Delaware limited liability company (Parent), and Milestone Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent (Merger Sub), providing for the merger of Merger Sub with and into the Company (the Merger), with the Company surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Vista Equity Partners Fund VI, L.P., a Delaware limited partnership (Vista). Capitalized terms used herein but not otherwise defined have the meaning set forth in the Merger Agreement, which was filed as Exhibit 2.1 to the Current Report on 8-K filed by the Company with the SEC on May 31, 2016.

At the Effective Time, each:

(i) share of common stock, par value $0.0001 per share, of the Company (Company Common Stock) issued and outstanding as of immediately prior to the Effective Time (other than Owned Company Shares and Dissenting Company Shares) will be cancelled and extinguished, and automatically converted into the right to receive cash in an amount equal to $35.25, without interest thereon (Per Share Price);

(ii) Company Stock-Based Award, whether vested or unvested, will be cancelled and converted into the right to receive an amount equal to (x) the Per Share Price (less the exercise price per share, if any, attributable to such Company Stock-Based Award), multiplied by, (y) (A) in the case of a Company Stock-Based Award that is only subject to time-vesting requirements, the total number of shares of Company Common Stock that are subject to such Company Stock-Based Award, and (B) in the case of a Company Stock-Based Award that is subject to time- and performance-vesting requirements, the total number of shares of Company Common Stock determined pursuant to the "change in control" provisions of the award agreement underlying such Company Stock Based Award, and with the remaining time-vesting requirements deemed satisfied; and

(iii) Company Option, whether vested or unvested, will be cancelled and converted into the right to receive an amount equal to (a) the Per Share Price (less the exercise price per share, if any, attributable to such Company Option), multiplied by (b) the total number of shares of Company Common Stock that are issuable upon the full exercise of such Company Option.

The parties have made customary representations, warranties and covenants in the Merger Agreement, including covenants regarding the conduct of their respective businesses and the use of reasonable best efforts to cause the conditions of the Merger to be satisfied. Marketo has agreed, subject to the restrictions and exceptions in the Merger Agreement, to conduct its business and operations in the ordinary course of business. Marketo has also agreed to not initiate, propose or induce or knowingly encourage, facilitate or assist any inquiries regarding any proposal or offer that constitutes or would reasonably be expected to lead to an Acquisition Proposal, subject to certain exceptions set forth in the Merger Agreement. The Merger Agreement also includes termination provisions for both the Company and Parent and provides that, in connection with the termination of the Merger Agreement under specified circumstances, the Company may be required to pay to Parent a termination fee of $49.2 million.

Consummation of the Merger is subject to customary closing conditions, including, but not limited to, the: (i) requisite approvals by the Company's stockholders; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act); and (iii) absence of any law or order restraining, enjoining or otherwise prohibiting the Merger. On June 22, 2016, the U.S. Federal Trade Commission notified Marketo that early termination of the waiting period under the HSR Act was granted, effective immediately. On July 28, 2016, Marketo held a special meeting of stockholders (the Special Meeting) at Marketo's principal executive offices in San Mateo, CA to vote on the proposals described in the Company's definitive proxy statement filed with the Securities and Exchange Commission on June 29, 2016 and first mailed to Marketo's stockholders on June 29, 2016. At the Special Meeting, stockholders approved the proposal to adopt the Merger Agreement.

Seasonality, Cyclicality and Quarterly Trends

We have historically experienced seasonality in terms of when we enter into new customer agreements for our services. We sign a significantly higher percentage of agreements with new customers as well as renewal agreements with existing customers in the fourth quarter of each year as compared to any of the prior quarters. The first quarter and third quarter are typically the slowest in this regard. Furthermore, we usually sign a significant portion of these agreements during the last month, and often the last two weeks, of each quarter. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, because we recognize subscription revenue over the term of the license agreement, which is typically one year, but ranges from one to three years. Historical patterns should not be considered a reliable indicator of our future sales activity or performance.

Our revenue has increased over the periods presented due to increased sales to new customers, as well as increased usage of existing and new products by existing customers. Our operating expenses generally have increased sequentially in every quarter primarily due to increases in headcount and other related expenses to support our growth. We anticipate our operating expenses will continue to increase in absolute dollars in future periods as we invest in the long-term growth of our business.

In addition, each year we typically participate in several key industry trade shows, including our own annual user conference, which typically occurs in the second quarter of the fiscal year. The timing of these events can vary from year to year, and the costs associated with these events typically have a significant effect on our sales and marketing expenses for the applicable quarter and cause our quarterly results and cash flows to fluctuate.

Results of Operations for the Three and Six Months Ended June 30, 2016 and 2015

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Subscription and support	87.4%	86.3%	88.2%	86.7%
Professional services and other	12.6	13.7	11.8	13.3
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Subscription and support	18.5	19.3	19.1	19.5
Professional services and other	13.7	16.1	14.1	16.0
Total cost of revenue	32.2	35.4	33.2	35.5
Gross margin:				
Subscription and support	69.0	67.1	69.1	67.2
Professional services and other	-1.1	-2.5	-2.3	-2.8
Total gross margin	67.8	64.6	66.8	64.5
Operating expenses:				
Research and development	15.4	18.1	16.5	19.5
Sales and marketing	53.2	63.2	56.3	64.2
General and administrative	21.9	17.7	19.7	18.4
Total operating expenses	90.5	99.0	92.6	102.1
Loss from operations	-22.7	-34.4	-25.8	-37.6
Other income (expense), net	0.1	0.2	-0.1	0.6
Loss before provision for income taxes	-22.6	-34.2	-25.9	-37.0
Provision for income taxes	0.6	0.2	0.6	0.3
Net loss	-23.2	-34.4	-26.5	-37.3
Net loss attributable to redeemable non-controlling interests	-8.3	-1.0	-4.0	0.0
Net loss attributable to Marketo	-31.5%	-35.4%	-30.6%	-37.3%

Percentages are based on actual values. Totals may not sum due to rounding.

Revenue

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Revenue:								
Subscription and support	$ 57,682	$ 43,757	$ 13,925	31.8%	$ 113,030	$ 83,857	$ 29,173	34.8%
Professional services and other	8,313	6,923	1,390	20.1	15,181	12,823	2,358	18.4
Total revenue	$ 65,995	$ 50,680	$ 15,315	30.2%	$ 128,211	$ 96,680	$ 31,531	32.6%
Percentage of revenue:								
Subscription and support	87.4%	86.3%			88.2%	86.7%		
Professional services and other	12.6%	13.7%			11.8%	13.3%		
Total	100.0%	100.0%			100.0%	100.0%		

Total revenue increased $15.3 million or 30%, during the three months ended June 30, 2016 compared to the same period in 2015, due to the increase in subscription and support revenue of $13.9 million and an increase in professional services and other revenue of $1.4 million. During the six month period ended June 30, 2016, total revenue increased $31.5 million, or 33%, compared to the comparable period in 2015, due to the increase in subscription and support revenue of $29.2 million and an increase in professional services and other revenue of $2.4 million.

Category	Impact (in thousands) Three Months		Six Months		Key Drivers
Subscription and support	h	$ 13,925	h	$ 29,173	Increase in subscription and support revenue was primarily attributable to (1) growth in our total customer count and (2) growth in both usage rights (driven by higher use, consumption and/or database size of our products used by existing customers) and cross selling of additional products either during the term of their subscription or at the point of renewal of their subscription. Of the total increase in subscription and support revenue during the three months ended June 30, 2016, 65% was attributable to revenue from new customers acquired after June 30, 2015 and 35% was attributable to revenue from customers existing on or before June 30, 2015.
Professional services and other	h	$ 1,390	h	2,358	Increase in professional services and other revenue resulted from increased demand for services across our customer base, particularly enterprise customers who typically have a higher demand for our services.

Cost of Revenue and Gross Margin

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Cost of revenue:								
Subscription and support	$ 12,178	$ 9,770	$ 2,408	24.6%	$ 24,488	$ 18,844	$ 5,644	30.0%
Professional services and other	9,058	8,177	881	10.8	18,126	15,514	2,612	16.8
Total cost of revenue	$ 21,236	$ 17,947	$ 3,289	18.3%	$ 42,614	$ 34,358	$ 8,256	24.0%
Gross margin:								
Subscription and support	78.9%	77.7%			78.3%	77.5%		
Professional services and other	-9.0%	-18.1%			-19.4%	-21.0%		
Total gross margin	67.8%	64.6%			66.8%	64.5%		

Cost of subscription and support increased due to the following:

Category	Impact (in thousands)						Key Drivers
	Three Months			Six Months			
Personnel-related costs	h	$	1,055	h	$	2,381	Increase in salary and benefits costs resulted from an increase in headcount directly associated with our cloud infrastructure, customer support and customer success organizations to support our existing and new customers.
Equipment maintenance	h		576	h		1,154	Increase in equipment maintenance costs primarily related to the increase in asset additions in our co-location data center facilities
Depreciation and amortization	h		315	h		964	Increase in depreciation and amortization expense primarily reflected the expansion of network capacity at our U.S. based co-location data center facilities and amortization of capitalized software costs.
Hosting costs	h		471	h		687	Increase in hosting costs resulted from our increased use of our international managed hosting service provider due to increased customer count at our international locations.
Various other items	i		(9)	h		458	(Decrease) increase was due to various other individually insignificant items.

Our subscription and support gross margin were 78.9% and 77.7% for the three months ended June 30, 2016 and 2015, respectively, and 78.3% and 77.5% for the six months ended June 30, 2016 and 2015, respectively. Subscription and support gross margin remained relatively flat for each of these periods primarily due to increased subscription and support revenue being offset by increased cost of subscription and support. We expect subscription and support gross margins to remain relatively flat in the future. Our gross margin for subscription and support gross margin can also be impacted by additional investments in data centers and any increase in costs relating to royalties.

Cost of professional services and other increased due to the following:

Category	Impact (in thousands)						Key Drivers
	Three Months			Six Months			
Personnel-related costs	h	$	598	h	$	1,937	Increase in salary and benefit cost resulted from an increase in headcount as we continue to grow our professional services organization to support the increasing demand from our enterprise customers.
Various other items	h		283	h		675	Increase was due to various other insignificant items.

Our professional services and other gross margin were (9.0)% and (18.1)% for the three months ended June 30, 2016 and 2015, respectively, and (19.4)% and (21.0)% for the six months ended June 30, 2016 and 2015, respectively. The improvement in gross margin for the three and six months ended June 30, 2016, compared to the same periods in 2015, primarily reflects an improvement of utilization of our internal resources.

We expect gross margin for professional services to improve for the remainder of 2016 as we align capacity to support projected growth of our professional services business. Our gross margin for professional services can also be impacted by any associated costs relating to the delivery of professional services, and the timing of significant expenditures.

Research and Development

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Research and development	$ 10,178	$ 9,168	$ 1,010	11.0%	$ 21,179	$ 18,863	$ 2,316	12.3%
Percentage of total revenue	15.4%	18.1%			16.5%	19.5%		

Research and development expenses increased due to the following:

Category	Impact (in thousands)						Key Drivers
	Three Months			Six Months			
Personnel-related costs	h	$	828	h	$	1,357	Increase in salary and benefits costs was primarily driven by the increase in headcount to support the enhancement of our existing products and the development of new products.
Various other items	h		182	h		959	Increase was due to various other insignificant items.

We believe that continued investment in our technology is important for our future growth, and, as a result, we expect research and development expenses to continue to increase in absolute dollars but may fluctuate as a percentage of revenue.

Sales and Marketing

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Sales and marketing	$ 35,096	$ 32,055	$ 3,041	9.5%	$ 72,209	$ 62,087	$ 10,122	16.3%
Percentage of total revenue	53.2%	63.2%			56.3%	64.2%		

Sales and marketing expenses increased due to the following:

Category	Impact (in thousands) Three Months		Six Months		Key Drivers
Personnel-related costs	h	$ 2,807	h	$ 8,579	Increase in salary and benefit costs was primarily driven by an increase in headcount for our sales, marketing and business development employees and executives and an increase in commission expense as a result of new customer acquisitions and increased subscription services to existing customers.
Travel and entertainment	h	133	h	1,167	Increase in travel costs reflected the expansion of our enterprise sales efforts and increased international sales and marketing efforts.
Facilities and IT allocations	h	495	h	1,216	Increase in the allocation of facility and IT expenses was due principally to headcount growth in the sales and marketing department and overall higher IT and facilities expenses.
Marketing programs	i	(820)	i	(1,641)	Decrease in marketing costs was due primarily to a planned effort to improve efficency in marketing spend through a shift in the mix of programs in the current period and greater leverage of sales and partner teams to help drive demand.
Various other items	h	426	h	801	Increase was due to various other insignificant items.

We expect sales and marketing expenses to increase in absolute dollars and remain our largest expense in absolute dollars, but may fluctuate as a percentage of revenue.

General and Administrative

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
General and administrative	$ 14,445	$ 8,960	$ 5,485	61.2%	$ 25,317	$ 17,742	$ 7,575	42.7%
Percentage of total revenue	21.9%	17.7%			19.7%	18.4%		

General and administrative expenses increased due to the following:

Category	Impact (in thousands) Three Months		Six Months		Key Drivers
Personnel-related costs	h	$ 1,126	h	$ 3,092	Increase in salary and benefit costs was primarily driven by an increase in headcount for our administrative, legal, human resources, finance and accounting departments and an increase in stock-based compensation expenses from additional equity awards to new and existing employees.
Professional services	h	$ 1,219	h	$ 1,200	Increase in professional services is primarily due to legal and other fees associated with our proposed merger.
Consulting	h	$ 3,119	h	$ 3,508	Increase in consulting fees is primarily due to investment banking fees associated with our proposed merger.
Various other items	h	21	i	(225)	Increase (decrease) was due to various other insignificant items.

We expect that our general and administrative expenses will increase in absolute dollars as we continue to expand our business and infrastructure to support our growing organization, but may fluctuate as a percentage of revenue in the future.

Other (Expense) Income, net

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Other (expense) income, net	$ 51	$ 97	$ (46)	47.4%	$ (86)	$ 617	$ (703)	113.9%
Percentage of total revenue	0.1%	0.2%			-0.1%	0.6%		

Other (expense) income, net increased due to the following:

Category	Impact (in thousands) Three Months			Impact (in thousands) Six Months			Key Drivers
Foreign exchange gain (loss)	i	$	(106)	i	$	(852)	The change in foreign exchange gain (loss) was primarily due to the strengthening of the U.S. dollar against the Euro during the three and six months ended June 30, 2015 resulting in gains, versus the U.S. dollar weakening against other foreign currencies during the three and six months ended June 30, 2016, resulting in losses.
Various other items	h		60	h		149	Increase was due to various other insignificant items.

Provision for Income Taxes

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Provision for income taxes	$ 405	$ 100	$ 305	305.0%	$ 807	$ 312	$ 495	158.7%
Percentage of total revenue	0.6%	0.2%			0.6%	0.3%		

The Company recorded a provision for income taxes of $0.4 million and $0.1 million for the three months ended June 30, 2016 and 2015, respectively, and $0.8 million and $0.3 million for the six months ended June 30, 2016 and 2015, respectively. The provision for income taxes relates primarily to foreign and state income taxes.

Net Loss and Adjustment Attributable to Redeemable Non-Controlling Interests

(in thousands, except percentages)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
Net loss attributable to non-controlling interests	$ (5,445)	$ (497)	$ (4,948)	995.6%	$ (5,181)	$ (43)	$ (5,138)	11948.8%
Percentage of total revenue	8.3%	1.0%			4.0%	0.0%		

Net loss and adjustment attributable to redeemable non-controlling interests fluctuated due to the following:

Category	Impact (in thousands) Three Months			Impact (in thousands) Six Months			Key Drivers
Net loss attributable to non-controlling interest	h	$	44	h	$	28	Increase in net loss attributable to redeemable non-controlling interests related to the overall increase in net losses in Marketo KK.
Adjustment to non-controlling interest	i		(4,992)	i		(5,166)	Increase in adjustment to non-controlling interests was primarily due to the increase of the value of the estimated redemption value due to the increase in the closing stock price at June 30, 2016 of $34.82 versus the closing stock price at June 30, 2015 of $28.06.

Liquidity and Capital Resources

To date, we have financed our operations through cash collected from customers as well as preferred equity financings, our IPO and concurrent private placement completed in May 2013, and our follow-on public offering completed in September 2013. We also maintain a credit facility. As of June 30, 2016 and December 31, 2015, we had cash and cash equivalents of $99.5 million and $107.2 million, respectively, most of which was held in money market accounts.

In May 2012, we entered into a loan and security agreement with a bank related to a credit facility providing us with an equipment line of up to $4.0 million. In June 2013, we entered into a first amendment to the loan and security agreement, which provided an additional line of credit for advances of up to $4.5 million. The interest rate associated with both lines of credit is the greater of 4% or three-quarters of a percentage point above the bank's prime rate, as determined on the applicable funding date. For each equipment loan advance, we paid interest only for approximately nine months. Subsequently, we make thirty-six equal monthly payments of principal and interest. In May 2014 we entered into a second amendment to revise the existing covenants associated with this facility. As of June 30, 2016, we were in compliance with these revised covenants. As of June 30, 2016 and December 31, 2015, the outstanding loan balance was $1.4 million and $2.7 million, respectively. See Note 7 - Credit Facility to our Condensed Consolidated Financial Statements for a discussion of our credit facility.

A substantial source of our cash flow from operating activities results from changes in our deferred revenue balance, which is included on our unaudited condensed consolidated balance sheet as a liability. Deferred revenue consists of the unearned portion of billable fees for our software subscriptions and professional services and is amortized into revenue in accordance with our revenue recognition policy. As of June 30, 2016 and December 31, 2015, we had working capital of $33.5 million and $43.1 million, respectively, which included $102.6 million and $91.7 million of deferred revenue recorded as a current liability, respectively. The decrease in our working capital at June 30, 2016 was primarily due to our net cash used in operating activities and our total capital expenditures, partially offset by proceeds received for common stock issued upon exercise of stock options and under our employee stock purchase plan.

We assess our liquidity primarily through our cash on hand as well as the projected timing of billings under contract with our customers and related collection cycles. We believe our current cash and cash equivalents, and cash to be received from existing and new customers will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

As of June 30, 2016, we held an aggregate of $87.6 million and $11.9 million in cash and cash equivalents in the United States and our foreign subsidiaries, respectively. At present, such foreign funds are considered to be indefinitely reinvested in foreign countries. In the event funds from foreign operations are needed to fund cash needs in the United States and if U.S. taxes have not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

Our future capital requirements will depend on many factors, including equipment required in connection with expanding capacity in our co-location data center facilities, revenue growth and costs incurred to support customer growth, international expansion, research and development and increased general and administrative expenses to support the anticipated growth in our operations. Our capital expenditures in future periods are expected to grow in line with our business.

The table below provides selected cash flow information for the periods indicated (in thousands):

	Six Months Ended June 30,	
	2016	**2015**
Net cash (used in) provided by operating activities	$ (4,765)	$ 1,432
Net cash used in investing activities	(8,654)	(9,311)
Net cash provided by financing activities	4,869	6,129
Net decrease in cash and cash equivalents, net of impact of foreign exchange rates on cash	(7,714)	(2,199)

Net Cash (Used In) Provided By Operating Activities

Cash used in operating activities is significantly influenced by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business, the increase in the number of customers and size of customers using our cloud-based solutions and services, and the amount and timing of customer receipts and vendor payments. Cash used in operating activities has historically come from a net loss driven by sales of subscriptions to our solutions and adjusted for non-cash expense items, such as depreciation of property and equipment and amortization of stock-based compensation and acquired intangible assets. The percentage of customers that pay quarterly rather than annually changes every quarter. The percentage of customers who pay us quarterly has a material impact on our net cash used in operating activities.

Six Months Ended June 30, 2016

Factor	Impact (in millions)		Key Drivers
Net loss	i	$ (34.0)	Cash used in operating activities during the first six months of 2016 primarily reflected our net loss.
Depreciation and amortization	h	7.9	Add back of non-cash depreciation and amortization expense.
Stock-based compensation	h	20.1	Add back of non-cash stock-based compensation expense.
Accounts receivable	i	(11.6)	Increase in accounts receivable primarily reflects the timing of billings and higher level of billings during the period, and to a lesser extent, an increase in days sales outstanding from 79 days sales outstanding at December 31, 2016 to 85 days sales outstanding at June 30, 2016.
Deferred revenue	h	10.0	Increase in deferred revenue, resulting primarily from an increase in billings during the period and an increase in the percentage of billings with annual payment terms versus quarterly.
Accrued expenses and other current liabilities	i	(1.7)	Decrease in accrued expenses and other current liabilities primarily reflects a decrease in accrued bonus and commissions.
Accounts payable	h	1.6	Increase in accounts payable primarily reflects the timing of vendor payments.
Prepaid and other current assets	h	1.5	Decrease in prepaid expenses and other current assets primarily reflects the decrease in prepaid costs associated with the Company’s annual user conference which occured in May, partially offset by an increase in prepaid insurance.
Various other items	h	1.3	Increase is due to various other insignificant items.

Six Months Ended June 30, 2015

Factor	Impact (in millions)		Key Drivers
Net loss	i	$ (36.1)	Cash used in operating activities during the first six months of 2015 primarily reflected our net loss.
Depreciation and amortization	h	6.3	Add back of non-cash depreciation and amortization expense.
Stock-based compensation	h	19.0	Add back of non-cash stock based compensation expense.
Deferred revenue	h	18.3	Increase in deferred revenue, resulting primarily from the addition of new customers invoiced during the period, customer mix of more annual versus quarterly billing invoiced during the period and to a lesser extent, cross selling of additional products and increased usage of existing products to existing customers.
Accounts receivable	i	(8.5)	Increase in accounts receivable primarily reflects the timing of billings and higher level of sales and, to a lesser extent, an increase in days sales outstanding from 81 days sales outstanding during the fourth quarter of 2014 to 82 days sales outstanding in the second quarter of 2015.
Accounts payable	h	2.2	Increase in accounts payable reflects the timing of payment of vendor invoices.
Accrued expenses and other current liabilities	h	2.5	Increase in accrued expenses and other current liabilities primarily reflects an increase in accrued bonuses and vacation payable.
Prepaid and other current assets	i	(2.0)	Increase in prepaid expenses and other current assets primarily reflected prepaid costs related to amounts paid for annual subscription software services, prepaid maintenance contracts and prepaid insurance.
Various other items	h	(0.3)	Decrease is due to various other insignificant items.

Net Cash Used in Investing Activities

Six Months Ended June 30, 2016

Factor	Impact (in millions)			Key Drivers
Purchases of property and equipment	i	$	(6.8)	Cash outflows for purchases of property and equipment. Our increase in property and equipment was associated with an increase in network equipment in our co-location data center facilities as we continue to expand capacity, as well as computer equipment and software, leasehold improvements and furniture and fixtures for supporting activities related to general growth in our business.
Capitalized software development	i		(1.1)	Cash outflows for software development projects.
Restricted cash	i		(0.7)	Decrease is due to a letter of credit related to the San Mateo lease renewal agreement.

Six Months Ended June 30, 2015

Factor	Impact (in millions)			Key Drivers
Purchases of property and equipment	i	$	(8.3)	Cash outflows for purchases of property and equipment. Our increase in property and equipment was associated with an increase in network equipment in our co-location data center facilities as we continue to expand capacity, as well as computer equipment and software, leasehold improvements and furniture and fixtures for supporting activities related to general growth in our business.
Capitalized software development	i		(0.8)	Cash outflows for software development projects.
Various other items	i		(0.2)	Decrease is due to various other insignificant items.

Net Cash Provided By Financing Activities

Six Months Ended June 30, 2016

Factor	Impact (in millions)			Key Drivers
Employee stock purchase plan	h	$	2.7	Cash proceeds from the issuance of common stock under our employee stock purchase plan.
Stock option exercises	h		3.5	Cash proceeds received from the issuance of common stock upon the exercise of stock options.
Debt repayments	i		(1.3)	Cash outflows related to principal repayments under our credit facility.

Six Months Ended June 30, 2015

Factor	Impact (in millions)			Key Drivers
Employee stock purchase plan	h	$	2.9	Cash proceeds from the issuance of common stock under our employee stock purchase plan.
Stock option exercises	h		3.0	Cash proceeds received from the issuance of common stock upon the exercise of stock options.
Join Venture proceeds	h		1.7	Cash inflows from investment proceeds received from our redeemable non-controlling interest holders in our Japan joint venture.
Debt repayments	i		(1.3)	Cash outflows related to principal repayments under our credit facility.
Various other items	i		(0.2)	Decrease is due to various other insignificant items.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenue and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ from these estimates under different assumptions or conditions.

There have been no significant changes in our critical accounting policies and estimates during the first six months of 2016 as compared to the critical accounting policies and estimates disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K.

Recent Accounting Pronouncements

In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU addresses certain implementation issues that have surfaced since the issuance of ASU 2014-09 in May 2014. The ASU provides guidance in identifying performance obligations and determining the appropriate accounting for licensing arrangements. The amendments in this ASU will be effective for us beginning January 1, 2018, and for interim periods therein. We are in the process of assessing the impact that adoption of this new standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 further clarifies principal and agent relationships within ASU 2014-09. The amendment will be effective for us beginning January 1, 2018, including interim reporting periods within that reporting year. We are evaluating the impact that adoption of this new standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient — expected term (nonpublic only); and (7) intrinsic value (nonpublic only). The ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those years and early adoption is permitted. We have elected not to early adopt. We are evaluating the impact of the updated guidance on our consolidated financial statements and related disclosures and have not selected a transition method.

In February 2016, the FASB issued ASU 2016-02, Leases, which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase lessees' reported assets and liabilities — in some cases very significantly. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. This ASU is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. ASU 2016-02 mandates a modified retrospective transition method for all entities. We are evaluating the impact of the updated guidance on our consolidated financial statements and related disclosures and have not determined if we will early adopt.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer. In July 2015, the FASB approved a one year deferral of the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP. In accordance with the deferral, this guidance will be effective for us, beginning January 1, 2018, and can be applied either retrospectively to each period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption is permitted beginning January 1, 2017. We have elected not to early adopt. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Contractual Obligations and Commitments

Our primary contractual obligations are from our operating leases, a credit facility and other contractual commitments. See Note 7 - Credit Facility to our condensed consolidated financial statements for a discussion of our credit facility. Except as set forth below, there were no material changes in our commitments under contractual obligations, as disclosed in our audited consolidated financial statements for the year ended December 31, 2015.

In March 2016, we entered into a definitive lease agreement whereby we extended our current lease facilities in San Mateo through 2022 and expanded our office space by approximately 33,779 square feet. Our future incremental minimum lease payments under this extension are approximately $36.7 million, payable over seventy months. In conjunction with the amendment to the San Mateo lease agreement, we entered into a letter of credit of approximately $0.7 million with a bank as security for the amended lease agreement.

In May 2016, we entered into a definitive lease agreement whereby we lease approximately 17,227 square feet of office space in Dublin, Ireland. Our future minimum lease payments under this agreement are approximately $2.8 million, payable over the sixty month lease term.

As of June 30, 2016, future minimum operating lease payments are as follows (in thousands):

	Minimum Lease Payment
2016	$ 3,990
2017	9,226
2018	9,678
2019	9,389
2020	8,929
Thereafter	14,800
Total	$ 56,012

Off-Balance Sheet Arrangements

During the three months ended June 30, 2016, 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. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro, British Pound Sterling, Australian dollar and Japanese Yen. Decreases in the relative value of the U.S. dollar to other currencies may negatively affect our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net loss as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. As a result, we recognize foreign currency gains or losses from time to time related to these transactions. We recognized foreign currency gains of approximately $16,000 and $122,000 for the three months ended June 30, 2016 and 2015, respectively, and foreign currency losses of approximately $0.2 million and foreign currency gains of approximately $0.7 million for the six months ended June 30, 2016 and 2015, respectively. A 10% increase or decrease in the U.S. dollar exchange rate relative to any other currency would not have a material impact on our revenue or operating results.

Interest Rate Sensitivity

We have a credit facility with outstanding equipment advances of approximately $1.4 million and $2.7 million as of June 30, 2016 and December 31, 2015, respectively. The interest rate associated with this facility is the greater of 4% or three quarters of a percentage point above the prime rate. A one percent increase in the prime rate would not have an impact on our operating results as the greater of the two rates is 4%, and we would still pay interest of 4%. A 10% increase or decrease in interest rates would not result in a material change in either our obligations under this facility or in the returns on our cash and cash equivalents.

Inflation Risk

We do not believe that inflation has had a material effect on our business. However, if our costs, in particular personnel, sales and marketing and infrastructure costs, were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), has evaluated the effectiveness 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 (Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II— OTHER INFORMATION

Item 1. Legal Proceedings

On July 5, 2016, a purported stockholder class action lawsuit captioned Porwal v. Marketo, Inc. et al., Case No. 16CIV00265, was filed in Superior Court of the State of California, County of San Mateo against Marketo, its directors, Vista Equity Partners Fund VI, L.P. (Vista), Milestone Holdco LLC (Parent), and Mileston Merger Sub (Merger Sub). The lawsuit alleges, generally, that Marketo's directors breached their fiduciary duties to Marketo stockholders by seeking to sell Marketo through an allegedly defective process, for an unfair price, and on unfair terms, and that the other defendants aided and abetted those purported breaches. The lawsuit also alleges that defendants have failed to disclose all material facts concerning the proposed Merger to stockholders. The lawsuit seeks, among other things, equitable relief that would enjoin the consummation of the proposed Merger, damages, rescission of the proposed Merger to the extent it is consummated, and attorneys' fees and costs.

On July 12, 2016, a purported stockholder class action lawsuit captioned Rosati v. Marketo, Inc. et al., Case No. 3:16-cv-3907, was filed in the United States District for the Court Northern District of California against Marketo and its directors. The lawsuit alleges, generally, that Marketo and its directors violated Section 14(a) and Rule 14a-9 promulgated thereunder by the SEC pursuant to Section 14 under the Securities Exchange Act of 1934, as amended. The lawsuit also alleges that defendants have failed to disclose all material facts concerning the proposed Merger to stockholders. The lawsuit also alleges that Marketo's directors breached their fiduciary duties to Marketo stockholders by conducting an inadequate sales process and agreeing to a transaction that provides Marketo's stockholders with inadequate consideration. On July 21, 2016, the plaintiff filed a request for a Temporary Restraining Order seeking to enjoin the shareholder vote. On July 26, 2016, the Court denied plaintiff's request. The lawsuit seeks, among other things, equitable relief that would enjoin the consummation of the proposed Merger, damages, rescission of the proposed Merger to the extent it is consummated, and attorneys' fees and costs.

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report, and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

The pendency of the Merger or our failure to complete the Merger could have a material adverse effect on our business, results of operations, financial condition and stock price.

Completion of the Merger is subject to the satisfaction of various conditions, including the absence of certain legal impediments. There is no assurance that all of the various conditions will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe, or at all.

The Merger gives rise to inherent risks that include:

- the inability to complete the Merger due to the failure to satisfy the conditions to the completion of the Merger;
- the risk that if the Merger is not completed, investor confidence could decline, additional stockholder litigation could be brought against us, relationships with existing and prospective customers, suppliers and other business partners may be adversely impacted, we may be unable to retain key personnel, and profitability may be adversely impacted due to costs incurred in connection with the pending Merger;
- to the extent that the current market price of our stock reflects an assumption that the Merger will be completed, the price of our common stock could decrease if the Merger is not completed;

- the pendency of the Merger, even if ultimately completed, may create uncertainty in the marketplace and could lead current and prospective customers to purchase from other vendors or delay purchasing from us;
- the possibility of disruption to our business, including increased costs and diversion of management time and resources;
- the amount of cash to be paid under the Merger Agreement is fixed and will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations or in the event of any change in the market price of, analyst estimates of, or projections relating to, our common stock;
- legal or regulatory proceedings, including regulatory approvals (including any conditions, limitations or restrictions placed on these approvals), and the risk that one or more governmental entities may delay or deny approval, or other matters that affect the timing or ability to complete the transaction as contemplated;
- the inability to attract and retain key personnel pending consummation of the Merger, and the possibility that our employees could lose productivity as a result of uncertainty regarding their employment post-Merger;
- stockholder litigation, including the litigation described under "Item 1—Legal Proceedings," could prevent or delay the Merger or otherwise negatively impact our business and operations;
- the inability to pursue alternative business opportunities or make changes to our business pending the completion of the Merger, and other restrictions on our ability to conduct our business;
- the amount of the costs, fees, expenses and charges related to the Merger Agreement or the Merger, including the requirement to pay a termination fee of $49.2 million if we terminate the agreement governing the Merger under certain circumstances;
- the fact that under the terms of the Merger Agreement, we are unable to solicit other acquisitions proposals during the pendency of the Merger; and
- developments beyond our control including, but not limited to, changes in domestic or global economic conditions that may affect the timing or success of the Merger.

We have a history of losses and may not achieve consistent profitability in the future.

We generated net losses attributable to Marketo of $71.5 million, $54.3 million, and $47.4 million in 2015, 2014, and 2013, respectively and $20.8 million for the six months ended June 30, 2016. As of June 30, 2016, we had an accumulated deficit of $284.4 million. We will need to generate and sustain increased revenue levels in future periods in order to become consistently profitable, and, even if we do, we may not be able to maintain or increase our level of profitability. We intend to continue to expend significant funds to expand our marketing and sales operations, develop and enhance our solutions, meet the compliance requirements associated with our operation as a public company, expand our data center infrastructure and services capabilities and expand into new markets. Historically, we also have experienced negative gross margins on our professional services, which are expected to continue to be negative. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this report, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

If we are unable to attract new customers or sell additional services and functionality to our existing customers, our revenue growth will be adversely affected.

To increase our revenue, we must add new customers, encourage existing customers to renew their subscriptions on terms favorable to us, increase their usage of our solutions, and sell additional functionality and services to existing customers. As our industry matures, as interactive channels develop further, or as competitors introduce lower cost and/or differentiated products or services that are perceived to compete with ours, our ability to sell and renew based on pricing, technology and functionality could be impaired. In addition, attracting, retaining and growing our relationship with enterprise customers may require us to effectively employ different strategies than we have historically used with SMB customers, and we may face challenges in doing so. As a result, we may be unable to renew our agreements with existing customers or attract new customers or new business from existing customers on terms that would be favorable or comparable to prior periods, which could have an adverse effect on our revenue and growth.

We face significant competition from both established and new companies offering marketing solutions and other related applications, as well as internally developed solutions, which may harm our ability to add new customers, retain existing customers and grow our business.

The market for cloud-based marketing solutions is evolving, highly competitive and fragmented. We expect competition to continue to increase in the future. With the introduction of new technologies and the potential entry of new competitors into the market, we expect competition to persist and intensify in the future, which could harm our ability to increase sales, maintain or increase renewals and maintain our prices.

We face intense competition from other software companies that develop marketing software and from marketing services companies that provide interactive marketing services. Competition could adversely affect our ability to sell our marketing solutions on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future products less competitive, unmarketable or obsolete. In addition, if these competitors develop products with similar or superior functionality to our solutions, we may need to decrease the prices for our solutions in order to remain competitive. If we are unable to maintain our current pricing due to competitive pressures, our margins will be reduced and our operating results will be negatively affected.

Our competitors offer various solutions that compete with us. Some of these competitors include:

- cloud-based marketing automation providers such as Act-On, Eloqua (acquired by Oracle in 2012), ExactTarget (acquired by salesforce.com in 2013) and HubSpot;
- traditional database marketing software vendors such as Aprimo (a division of Teradata), SAS Institute and Unica (a division of IBM);
- email marketing software vendors, such as Responsys (acquired by Oracle in 2014) and Silverpop (acquired by IBM in 2014); and
- large-scale enterprise suites such as Oracle and SAP.

We also expect that new competitors, such as enterprise software vendors that have traditionally focused on enterprise resource planning or back office applications, will continue to enter the marketing software market with competing products, which could have an adverse effect on our business, operating results and financial condition. For example, due to the growing awareness of the importance of technology solutions to modern engagement marketing, we expect to face additional competition from new entrants to our markets. In addition to salesforce.com's acquisition of ExactTarget, other sales force automation and CRM system vendors, such as Microsoft, NetSuite and SAP, could acquire or develop solutions that compete with our offerings. Some of these companies have acquired social media marketing and other marketing software providers to integrate with their broader offerings.

Our current and potential competitors may have significantly more financial, technical, marketing and other resources than we have, may be able to devote greater resources to the development, promotion, sale and support of their products and services, may have more extensive customer bases and broader customer relationships than we have, and may have longer operating histories and greater name recognition than we have. As a result, these competitors may be better able to respond quickly to new technologies and to undertake more extensive marketing campaigns. To the extent any of our competitors have existing relationships with potential customers for either marketing software or other solutions, those customers may be unwilling to purchase our solutions because of those existing relationships with that competitor. If we are unable to compete with such companies, the demand for our marketing solutions could substantially decline.

The competition we face in the sales of our solutions can put pressure on us to reduce our prices. Certain of our competitors, including large software vendors, sometimes offer marketing software at a discount or bundled together with their existing suite of solutions at little or no additional cost to customers. Our competitors' financial resources may allow them to execute these pricing strategies even though they may have a negative impact on their financial results. To the extent that these competitors continue to implement these pricing strategies, we may need to lower prices or offer other favorable terms in order to compete successfully. This could reduce our margins and could adversely affect operating results.

In addition, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. For example, Oracle acquired our competitor Eloqua in 2012 and Responsys in 2014; ExactTarget acquired our competitor Pardot in 2012 and salesforce.com subsequently acquired ExactTarget in July 2013. Other companies such as Adobe and IBM have also acquired companies in the marketing automation and/or social marketing and related spaces. These acquisitions have resulted in fewer but larger companies with whom we compete for

customers. Our competitors may also establish or strengthen cooperative relationships with our current or future strategic distribution and technology partners or other parties with whom we have relationships, thereby limiting our ability to promote and implement our solutions. We may not be able to compete successfully against current or future competitors, and competitive pressures may harm our business, operating results and financial condition.

Economic uncertainties or downturns in the general economy or the industries in which our customers operate could disproportionately affect the demand for our marketing solutions and negatively impact our operating results.

General worldwide economic conditions have experienced a significant downturn and fluctuations in recent years, and market volatility and uncertainty remain widespread. As a result, we and our customers find it extremely difficult to accurately forecast and plan future business activities. In addition, these conditions could cause our customers or prospective customers to reduce their marketing and sales budgets, which could decrease corporate spending on our marketing solutions, resulting in delayed and lengthened sales cycles, a decrease in new customer acquisition and/or loss of customers. Furthermore, during challenging economic times, our customers may face issues with their cash flows and in gaining timely access to sufficient credit or obtaining credit on reasonable terms, which could impair their ability to make timely payments to us, impact customer renewal rates and adversely affect our revenue. If such conditions occur, we may be required to increase our reserves, allowances for doubtful accounts and write-offs of accounts receivable, and our operating results would be harmed. In addition, a downturn in the technology sector may disproportionately affect us because a significant portion of our customers are technology companies. We cannot predict the timing, strength or duration of any economic slowdown or recovery, whether global, regional or within specific markets. If the conditions of the general economy or markets in which we operate worsen, our business could be harmed. In addition, even if the overall economy does not worsen or improves, the market for marketing software may not experience growth or we may not experience growth.

If subscription renewal rates decrease, or we do not accurately predict subscription renewal rates, our future revenue and operating results may be harmed.

Our customers have no obligation to renew their subscriptions for our solutions after the expiration of their subscription period, which is typically one year, but generally ranges from one to three years. In addition, our customers may renew for lower subscription amounts or for shorter contract lengths. We may not accurately predict renewal rates for our customers. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer usage, pricing changes, number of applications used by our customers, customer satisfaction with our service, increased competition, the acquisition of our customers by other companies and deteriorating general economic conditions. If our customers do not renew their subscriptions for our solutions or decrease the amount they spend with us, our revenue will decline and our business will suffer.

If our current relationship with salesforce.com changes or we are unable to maintain, develop and grow our relationships with other platform and service providers, our business will suffer.

As of June 30, 2016, a significant percentage of our customers continued to integrate our solutions with certain capabilities of salesforce.com using publicly available application programming interfaces (APIs). In general, we rely on the fact that salesforce.com continues to allow us access to its APIs to enable these customer integrations. Certain of our services that integrate with salesforce.com are subject to the standard terms and conditions for application developers of salesforce.com, which govern the distribution, operation and fees of applications on the salesforce.com platform, and which are subject to change by salesforce.com from time to time. In addition, certain of our services that integrate with salesforce.com are subject to a negotiated contract. If, in the future, we are unable to integrate our services with salesforce.com or the pricing or other business or technical terms of the integrations change, our business and results of operations could suffer.

While we expect the majority of our revenue to continue to come from customers who also use the salesforce.com platform, we also integrate our solutions with various other platforms and third-party providers of applications, including CRM, event management, e-commerce, call center, and social media sites that our customers use and from which they obtain data. Any deterioration in our relationship with these platforms or service providers could harm our business and adversely affect our operating results.

Our business may be harmed if any platform or service provider:

- discontinues or limits our access to its APIs;
- terminates or does not allow us to renew or replace our contractual relationship;
- modifies its terms of service or other policies, including fees charged to, or other restrictions on, us, other application developers, or changes how customer information is accessed by us or our customers;

- establishes more favorable relationships with one or more of our competitors, or acquires one or more of our competitors and offers competing services to us; or
- otherwise develops its own competitive offerings.

In addition, we have benefited from these providers' brand recognition, reputations and customer bases. Any losses or shifts in the market position of these providers in general, in relation to one another or to new competitors or new technologies could lead to losses in our relationships or customers, or our need to identify or transition to alternative channels for marketing our solutions. These factors could consume substantial resources and may not be effective. Any such changes in the future could negatively impact our ability to reach our prospective customers, which would harm our business.

Our historical growth rates may not be indicative of our future growth and, if we continue to grow, we may not be able to manage our growth effectively.

From 2013 to 2015, our annual revenue grew from $95.9 million to $209.9 million. For the six months ended June 30, 2016, our revenue grew to $128.2 million from $96.7 million during the prior period. We expect that even if our revenue continues to increase in the future, our revenue growth rate will decline. We believe growth of our revenue depends on a number of factors, including our ability to:

- price our marketing solutions and services effectively so that we are able to attract and retain customers without compromising our profitability or experiencing significant customer churn in response to price and other competitive pressures;
- attract new customers, increase our existing customers' use of our services and provide our customers with excellent professional services and customer support;
- introduce our marketing solutions to new markets outside of the United States; and
- increase awareness of our brand on a global basis.

We may not successfully accomplish any of these objectives. We plan to continue our investment in future growth. We expect to continue to expend substantial financial and other resources on:

- sales and marketing, including a significant expansion of our sales organization;
- professional services to support implementing our solutions for customers and ongoing customer support;
- our technology infrastructure, including systems architecture, management tools, scalability, availability, performance and security, as well as disaster recovery measures;
- product development, including investments in our product development team and the development of new products and new features for existing products;
- international expansion; and
- general administration, including legal and accounting expenses related to being a public company.

In addition, our historical growth has placed and may continue to place significant demands on our management and our operational and financial resources. We have also experienced significant growth in database size, the number of users and transactions and the amount of data that our hosting infrastructure supports. As we continue to grow, we will likely open new offices in the United States and internationally, and hire additional personnel for those offices. Finally, our organizational structure is becoming more complex as we integrate acquired companies as well as add additional employees. We will need to continue to improve our operational, financial and management controls as well as our reporting systems and procedures as our operations become increasingly complex. We will continue to require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to customer success that has been central to our growth so far.

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

Our operations involve the storage and transmission of customer data, including personally identifiable information, and security incidents could result in unauthorized access to, loss of or unauthorized disclosure of this information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales and harm our business. Cyber attacks and other malicious Internet-based activity continue to increase in frequency, magnitude, and sophistication and cloud-based platform providers of marketing services have been targeted. If our security measures are compromised as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials, successful phishing or social engineering attempts, or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liability. In addition, if the security measures of our customers are compromised, even without any actual compromise of our own systems, we may face negative publicity or reputational harm if our customers or anyone else incorrectly attributes the blame for such security breaches on us or our systems. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to our customers' data.

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

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

Interruptions to or degraded performance of our service could result in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenue.

We currently host our solutions at facilities located in the United States, the European Union and Australia. The continuous availability of our solutions depends on the operations of those facilities, on a variety of network service providers, on third-party vendors and on our own data center operations staff. In addition, we depend on our third-party facility providers' abilities to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. If there are any lapses of service or damage to a facility or our computer equipment or systems, we could experience lengthy interruptions in our service as well as delays and additional expenses in arranging new facilities, services, computer equipment or systems. Even with current and planned disaster recovery arrangements, which, to date, have not been tested in an actual crisis, our business could be harmed.

We designed our 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 operations protocols and procedures could cause our systems to fail, resulting in interruptions in our solutions. 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 cause our revenue to decrease and/or our expenses to increase. 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 further reduce our revenue, subject us to liability and cause us to issue credits or cause customers not to renew their subscriptions, any of which could have a material adverse effect on our business.

The failure to attract and retain qualified personnel could prevent us from executing our business strategy.

To execute our business strategy, we must attract and retain highly qualified personnel, and we may not be successful in attracting and retaining the professionals we need. In particular, we compete with many other companies for software developers with

high levels of experience in designing, developing and managing cloud-based software, as well as for skilled marketing and operations professionals. Sales professionals are also very important to our success and are particularly difficult to hire, train and retain in the current environment. We have from time to time experienced, and expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In particular, we have experienced a highly competitive hiring environment in the San Francisco Bay Area, where we are headquartered. Many of the companies with which we compete for experienced personnel have greater resources than we do. In addition, in making employment decisions, particularly in the software industry, job candidates often consider the value of the stock awards or other equity incentives they are to receive in connection with their employment. If the price of our stock declines, or experiences significant volatility, our ability to attract or retain key employees will be adversely affected. If we continue to experience difficulty in hiring and retaining qualified personnel, if hiring and retaining qualified personnel becomes more difficult, or if we experience higher than expected employee turnover, especially with respect to experienced and trained enterprise sales professionals and software developers in each case, we may be unable to meet our growth targets and our business could be significantly harmed.

A significant percentage of our sales force is new to our company and therefore less productive than our more tenured sales personnel. We expect that new employees will continue to make up a significant percentage of our sales force in the near future. New hires require significant training and may take significant time before they achieve full productivity. We estimate based on past experience that sales team members typically do not fully ramp and are not fully productive during the first several months to quarters of employment with us, depending on the role. Our recent hires and planned hires may not become productive as quickly as we expect. Furthermore, hiring sales personnel in new international territories requires additional set up and upfront costs that we may not recover if the sales personnel fail to achieve full productivity. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our financial results may suffer.

We may not be able to scale our business quickly enough to meet our customers' growing needs, and if we are not able to grow efficiently, our operating results could be harmed.

As our customer base grows and as customers use our solutions for more advanced engagement marketing programs, we will need to devote additional resources to improving our application architecture, integrating with third-party systems, and maintaining infrastructure performance. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and professional services, to serve our growing customer base, particularly as our customer demographics expand over time. Any failure of or delay in these efforts could impair system performance and reduce customer satisfaction. These issues could reduce the attractiveness of our marketing solutions to customers, resulting in decreased sales to new customers, lower renewal rates by existing customers, the issuance of service credits, or requested refunds, which could adversely affect our revenue growth and harm our reputation. Even if we are able to upgrade our systems and expand our staff, any such expansion will be expensive and complex, requiring management time and attention. We could also face inefficiencies or operational failures as a result of our efforts to scale our infrastructure. Moreover, there are inherent risks associated with upgrading, improving and expanding our information technology systems. We cannot be sure that the expansion and improvements to our infrastructure and systems will be fully or effectively implemented on a timely basis, if at all. These efforts may reduce revenue and our margins and adversely affect our financial results.

We rely on third-party technology that may be difficult to replace or potentially cause errors or failures of our services.

We rely on technology licensed from third parties in order to offer certain of our services. For example, our Advanced Analytics application embeds big data analytics software that we license from a third party. Third-party technology may not continue to be available or on commercially reasonable terms, or at all, or use of such technology may be limited by privacy laws. Any loss of the right to use third-party technology could limit the functionality of our services, increase our expenses and otherwise result in delays in the provisioning of our services until equivalent technology is either developed by us, or, is identified, obtained and integrated by us, if available. In addition, we have limited control over the functionality of third-party technology. Any changes, errors or defects in such technology could result in errors or a failure of our service, which could expose us to liability or result in customer dissatisfaction, loss of customers, damage to our reputation, or a reduction in revenue.

If we are unable to further penetrate the B2C market and additional vertical industries, our revenue may not grow and our operating results may be harmed.

Currently, a majority of our revenue is derived from companies in the B2B market and a significant portion is derived from customers in the technology industry. An important part of our strategy, however, is to further penetrate the B2C market and vertical industries outside of the technology industry, such as healthcare and financial services. We have less experience in this market and these industries, and expanding into them may require us to develop additional features for our products, expand our expertise in certain areas, and add sales and support personnel possessing familiarity with this market and the relevant vertical industries. In addition, B2C customers may have greater usage requirements during their peak selling seasons which could put pressure on our systems and infrastructure and require us to expand these systems and infrastructure to meet increased demand. As a result of these

and other factors, our efforts to expand further into the B2C market and into additional vertical industries may be expensive, may not succeed and may harm our revenue growth and operating results.

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

Our quarterly operating results have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance, and comparing our operating results on a period-to-period basis may not be meaningful. In addition to the other risks described in this report, factors that may affect our quarterly operating results include the following:

- changes in spending on marketing solutions by our current or prospective customers;
- pricing of our marketing solutions so that we are able to attract and retain customers;
- acquisition of new customers and increases of our existing customers' use of our services;
- customer renewal rates and the amounts for which agreements are renewed;
- customer delays in purchasing decisions in anticipation of new products or product enhancements by us or our competitors;
- budgeting cycles of our customers;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers;
- the amount and timing of payment for operating expenses, particularly research and development and sales and marketing expenses (including marketing events and commissions and bonuses associated with performance), and employee benefit expenses;
- the amount and timing of non-cash expenses, including stock-based compensation, goodwill impairments and other non-cash charges;
- the amount and timing of costs associated with recruiting, training and integrating new employees;
- the amount and timing of cash collections from our customers and the mix of quarterly and annual billings;
- introduction and adoption of our marketing solutions in markets outside of the United States;
- unforeseen costs and expenses related to the expansion of our business, operations and infrastructure;
- awareness of our thought leadership and brand on a global basis;
- changes in the levels of our capital expenditures;
- foreign currency exchange rate fluctuations; and
- general economic and political conditions in our domestic and international markets.

We may not be able to accurately forecast the amount and mix of future subscriptions, revenue and expenses, and, as a result, our operating results may fall below our estimates or the expectations of public market analysts and investors. If our revenue or operating results fall below the expectations of investors or securities analysts, or below any guidance we may provide, the price of our common stock could decline.

If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards or changing customer needs or requirements, our marketing solutions may become less competitive.

Our future success depends on our ability to adapt and to innovate our marketing solutions. To attract new customers and increase revenue from existing customers, we need to continually enhance and improve our offerings to meet customer needs at prices

that our customers are willing to pay. Such efforts will require adding new functionality and responding to technological advancements, which will increase our research and development costs. If we are unable to develop new solutions that address our customers' needs, or to enhance and improve our solutions in a timely manner, we may not be able to achieve or maintain adequate market acceptance of our solutions. Our ability to grow is also subject to the risk of future disruptive technologies. Access and use of our marketing solutions is provided via the cloud, which, itself, was disruptive to the previous enterprise software model. If new technologies emerge that are able to deliver marketing solutions and related applications at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely affect our ability to compete.

Because we recognize revenue from subscriptions over the term of the relevant contract, downturns or upturns in sales are not immediately reflected in full in our operating results.

As a subscription-based business, we recognize revenue over the term of each of our contracts, which is typically one year, but ranges from one to three years. As a result, much of the revenue we report each quarter results from contracts entered into during previous quarters. Consequently, a shortfall in demand for our solutions and professional services or a decline in new or renewed contracts in any one quarter may not significantly reduce our revenue for that quarter but could negatively affect our revenue in the future. Accordingly, the effect of significant downturns in new sales or renewals of our marketing solutions will not be reflected in full in our operating results until future periods. Our revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable term of the contracts.

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

A component of our growth strategy involves the further expansion of our operations and customer base internationally. In 2015, 2014 and 2013 revenue generated outside of the United States was 15.3%, 16.1% and 14.5%, respectively, of our total revenue. We currently have international offices outside of North America in Europe, Australia, and Japan which focus primarily on selling and implementing our solutions in those regions and an office in Israel which focuses primarily on research and development. We have data centers in the United States, the European Union, and Australia and, in the future, we may expand to other international locations. Our current international operations and future initiatives will involve a variety of risks, including:

- changes in a specific country's or region's political or economic conditions;
- unexpected changes in regulatory requirements, taxes or trade laws;
- more stringent or changing regulations relating to data protection, the international transfer of personal information and the unauthorized use of, or access to, commercial and personal information;
- differing labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- increased travel, real estate, infrastructure and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we choose to do so in the future;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general preferences for local vendors;
- limited or insufficient intellectual property protection;

- political instability, international conflict or terrorist activities;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as “Brexit”. As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.’s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and increased regulatory complexities. For example, if we determined that we needed to establish new data centers abroad, our cost of goods sold may increase. These changes may adversely affect our operations and financial results.

We opened our first international office in 2011, and our relatively limited experience in operating our business internationally increases the risk that our international expansion efforts may not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer.

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

Our ability to increase our customer base and achieve broader market acceptance of our marketing solutions will depend to a significant extent on our ability to expand our operations. We plan to continue expanding our sales force and third-party channel partners, both domestically and internationally. We also plan to dedicate significant resources to sales and marketing programs, including Internet and other online advertising. The effectiveness of our online advertising has varied over time and may vary in the future due to competition for key search terms, changes in search engine use and changes in the search algorithms used by major search engines. All of these efforts will require us to invest significant financial and other resources. In addition, the cost to acquire customers is high due to these marketing and sales efforts. Our business will be seriously harmed if our efforts do not generate a correspondingly significant increase in revenue. We may not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop and retain talented sales personnel, if our new sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if our sales and marketing programs are not effective.

If we fail to maintain and enhance our brand, our ability to expand our customer base will be impaired and our financial condition may suffer.

We believe that our development of the Marketo brand is critical to achieving widespread awareness of our existing and future engagement marketing solutions, and, as a result, is important to attracting new customers and maintaining existing customers. We also believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful marketing solutions at competitive prices. In the past, our efforts to build our brand have involved significant expenses. 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 brand. Our brand could be negatively affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity. For example, to sell to and service our customers we utilize a combination of internal personnel and third-party service providers, as well as indirect sales partners that pursue additional channel, agency and OEM distribution partnerships. These third-party service providers and indirect sales partners, who are not in our control, may harm our reputation and damage our brand perception in the marketplace. If we fail to successfully promote and maintain our brand, our business could suffer.

Future acquisitions, strategic investments, partnerships or alliances could be difficult to identify and integrate, divert the attention of management, disrupt our business, dilute stockholder value and adversely affect our operating results and financial condition.

We have in the past acquired, and we may in the future acquire businesses and technologies. For example, we acquired a small private company in December 2014, Insightera in December 2013 and Crowd Factory in April 2012. Acquisitions we make may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not the acquisitions are completed. We have limited experience in acquiring other businesses, and if we acquire additional businesses, we may not be able to successfully integrate the acquired personnel, operations and technologies, or effectively manage the combined business following the acquisition. We may not be able to find and identify desirable acquisition targets or be successful in entering into an agreement with any particular target. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails

to meet our expectations or if we are unable to successfully integrate it, our operating results, business and financial condition may suffer.

Our quarterly results reflect seasonality in the sale of our marketing solution, which can make it difficult to achieve sequential revenue growth or could result in sequential revenue declines.

We have historically experienced seasonal variations in our signing of customer contracts and renewals. We sign a significantly higher percentage of agreements with new customers as well as renewal agreements with existing customers in the fourth quarter of each year as compared to any of the prior quarters. The first quarter and third quarter are typically the slowest in this regard. We expect this seasonality to continue in the future, which may cause fluctuations in certain of our operating results and financial metrics, and thus limit our ability to predict future results. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, because we recognize subscription revenue over the term of the contract, which is typically one year, but ranges from one to three years. As a result, a slowdown in our ability to enter into customer agreements may not be apparent in our revenue for the quarter, as the revenue recognized in any quarter is primarily from customer agreements entered into in prior quarters. Historical patterns should not be considered indicative of our future sales activity or performance.

If we fail to forecast our revenue accurately, or if we fail to match our expenditures with corresponding revenue, our operating results could be adversely affected.

Because our recent growth has resulted in the rapid expansion of our business, we do not have a long history upon which to base forecasts of future revenue. In addition, for our enterprise customers, the lengthy sales cycle for the evaluation and implementation of our solutions, which typically extends for several months, may also cause us to experience a delay between increasing operating expenses for such sales efforts, and, upon successful sales, the generation of corresponding revenue. Accordingly, we may be unable to prepare accurate internal financial forecasts or replace anticipated revenue that we do not receive as a result of delays arising from these factors. As a result, our operating results in future reporting periods may be significantly below the expectations of the public market, equity research analysts or investors, which could harm the price of our common stock.

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

Our success and future growth depend upon the continued services of our management team, including Phillip M. Fernandez, our Chairman and Chief Executive Officer, and other key employees in the areas of research and development, marketing, sales, services and general and administrative functions. From time to time, there may be changes in our management team resulting from the hiring or departure of executives, which could disrupt our business. We also are dependent on the continued service of our existing software engineers because of the complexity of our solutions. In the United States, we may generally terminate any employee's employment at any time, with or without cause, and globally, any employee may resign at any time, with or without cause. In addition, our executive officers and certain other management-level employees benefit from management retention agreements and/or a change in control acceleration policy in which an involuntary termination by us without cause or a voluntary termination by the employee for good reason, as such terms are defined in the agreements and policy, in connection with or one year after a change of control transaction, will result in severance pay and/or acceleration of equity vesting for the individual, which would increase the cost to us of any such departure. We do not maintain key man life insurance on any of our employees. The loss of one or more of our key employees could harm our business.

If our marketing solution fails due to defects or similar problems, and if we do not correct any defect or other problems, we could lose customers, become subject to service performance or warranty claims or incur significant costs.

Our solutions and the systems infrastructure underlying our marketing platform are inherently complex and may contain material defects or errors. We have from time to time found defects in our solutions and may discover additional defects in the future. We may not be able to detect and correct defects or errors before customers begin to use our solutions. Consequently, we or our customers may discover defects or errors after our solutions have been implemented. These defects or errors could also cause inaccuracies in the data we collect and process for our customers, or even the loss, damage or inadvertent release of customer data. We implement bug fixes and upgrades as part of our regularly scheduled system maintenance, which may lead to system downtime. Even if we are able to implement the bug fixes and upgrades in a timely manner, any history of defects or inaccuracies in the data we collect for our customers, or the loss, damage or inadvertent release of customer data could cause our reputation to be harmed, and customers may elect not to purchase or renew their agreements with us and subject us to service performance credits, warranty claims or increased insurance costs. The costs associated with any material defects or errors in our solutions or other performance problems may be substantial and could materially adversely affect our operating results.

The standards and practices that entities use to regulate the use of email have in the past interfered with, and may in the future interfere with, the effectiveness of our solutions and our ability to conduct business.

Our customers rely in part on email to communicate with their existing or prospective customers. Various entities, such as commercial email, antivirus and network security providers, attempt to regulate the use of email for commercial solicitation. These entities often advocate standards of conduct or practice that significantly exceed current legal requirements and classify certain email solicitations that comply with current legal requirements as spam. Some of these entities maintain "blacklists" of companies and individuals, and the websites, Internet service providers and Internet protocol addresses associated with those entities or individuals that do not adhere to those standards of conduct or practices for commercial email solicitations that the blacklisting entity believes are appropriate. If 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. Customers may use a shared Internet protocol address when sending email through our platform, and if one such customer is blacklisted, then other customers sharing that address may experience email deliverability issues. Any of the foregoing restrictions or limitation on emails or internet addresses impacting our customers could lead to diminishing effectiveness of our marketing solutions, and, in turn, result in service problems and ultimately a reduction in renewals or loss of customers for us.

If we fail to offer high-quality education and customer support, our business and reputation may suffer.

High-quality education and customer support are important for the successful marketing and sale of our solutions and for the renewal of existing customers. Providing this education and support requires that our customer support personnel have specific marketing domain knowledge and expertise, making it more difficult for us to hire qualified personnel and to scale up our support operations due to the extensive training required. The importance of high-quality customer support will increase as we expand our business and pursue new customers. If we do not help our customers quickly resolve post-deployment issues and provide effective ongoing support, our ability to sell additional functionality and services to existing customers may suffer and our reputation with existing or potential customers may be harmed.

Future product development is dependent on adequate research and development resources. If we do not adequately fund our research and development efforts, we may not be able to compete effectively and our business and operating results may be harmed.

In order to remain competitive, we must continue to develop new product offerings, applications and enhancements to our existing cloud-based marketing solutions. Maintaining adequate research and development personnel and resources to meet the demands of the market is essential. If we are unable to develop solutions internally due to certain constraints, such as high employee turnover, lack of management ability or a lack of other research and development resources, we may miss market opportunities. Further, many of our competitors expend a considerably greater amount of funds on their research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. Our failure to maintain adequate research and development resources or to compete effectively with the research and development programs of our competitors could materially adversely affect our business.

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

Our strategy is to sell our marketing solutions to organizations of broadly different sizes, from SMBs to large enterprises. Our gross margins can vary depending on numerous factors related to the implementation and use of our marketing solutions, including the sophistication and intensity of our customers' use of our solutions and the level of professional services and support required by a customer. For example, our enterprise customers typically require more professional services and because our professional services offerings typically have a higher cost of revenue than subscriptions to our solutions, any increase in sales of professional services would have an adverse effect on our overall gross margin and operating results. Providing professional services to enterprises allows us to utilize our staff more efficiently than is the case in providing professional services to other customers or in other contexts; consequently, while an increase in providing professional services to enterprises typically hurts our overall gross margin, it may improve our professional services and other gross margin. Sales to enterprise customers may also entail longer sales cycles and more significant selling efforts. Selling to SMB customers may involve smaller contract size, higher relative selling costs and greater credit risk and uncertainty. In addition, our smallest customers have historically renewed at a lower rate than our largest customers. If the mix of organizations that purchase our solutions changes, or the mix of solution components purchased by our customers changes, our gross margins could decrease and our operating results could be adversely affected.

If we fail to maintain our thought leadership position in modern engagement marketing, our business may suffer.

We believe that maintaining our thought leadership position in modern engagement marketing is an important element in attracting new customers. We devote significant resources to develop and maintain our thought leadership position, with a focus on identifying and interpreting emerging trends in engagement marketing, shaping and guiding industry dialog, and creating and sharing the best marketing practices. Our activities related to developing and maintaining our thought leadership may not yield increased

revenue, and even if they do, any increased revenue may not offset the expenses we incurred in such effort. We rely upon the continued services of our management and employees with domain expertise in modern engagement marketing to maintain our leadership position, and the loss of any key management or employees in this area could harm our competitive position and reputation. If we fail to successfully grow and maintain our thought leadership position, we may not attract new customers or retain our existing customers, and our business could suffer. In addition, we may incur expenses in our attempts to maintain our thought leadership position, which could affect our profitability and business.

If we fail to adequately protect our proprietary rights, our competitive position could be impaired and we may lose valuable assets, experience reduced revenue and incur costly litigation to protect our rights.

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to perfect our rights, enforce our rights or if we do not detect unauthorized use of our intellectual property. Any of our patents, copyrights, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. We have issued patents and patent applications pending in the United States. However, our issued patents may not provide us with competitive advantages, or may be successfully challenged by third parties. In addition, we may be unable to obtain patent protection for the technology covered in our patent applications. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some contract provisions protecting against unauthorized use, copying, transfer and disclosure of our products may be unenforceable under the laws of certain jurisdictions and foreign countries. In addition, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying and use of our products and proprietary information may increase.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our products and proprietary information. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying, sales, or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our solutions, or injure our reputation.

Our business may suffer if it is alleged or determined that our technology infringes the intellectual property rights of others.

The software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and other intellectual and proprietary rights. Companies in the software industry, including in marketing software, are often required to defend against litigation claims based on allegations of infringement or other violations of intellectual property rights. Many of our competitors and other industry participants have been issued patents and/or have filed patent applications and may assert patent or other intellectual property rights within the industry. Moreover, in recent years, individuals and groups that are non-practicing entities have purchased patents and other intellectual property assets for the purpose of making claims of infringement in order to extract settlements. From time to time, we may receive threatening letters or notices or may be the subject of claims that our solutions and underlying technology infringe or violate the intellectual property rights of others. Responding to claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management's attention and resources, damage our reputation and brand, and cause us to incur significant expenses. Our technologies may not be able to withstand any third-party claims or rights against their use. Claims of intellectual property infringement might require us to redesign our applications, delay releases, enter into costly settlement or license agreements or pay costly damage awards, indemnify customers, or face a temporary or permanent injunction prohibiting us from marketing or selling our solutions. If we cannot or do not license the infringed technology on reasonable terms or at all, or substitute similar technology from another source, our revenue and operating results could be adversely impacted. Additionally, our customers may not purchase our marketing solutions if they are concerned that they may infringe third-party intellectual property rights. The occurrence of any of these events may have a material adverse effect on our business.

In our subscription agreements with our customers, we agree to indemnify our customers against losses or costs incurred in connection with claims by a third party alleging that a customer's use of our services infringes the intellectual property rights of the third party. There can be no assurance that any existing limitations of liability provisions in our contracts would be enforceable or adequate, or would otherwise protect us from any such liabilities or damages with respect to any particular claim. Our customers who are accused of intellectual property infringement may in the future seek indemnification from us under the terms of our contracts. If such claims are successful, or if we are required to indemnify or defend our customers from these or other claims, these matters could be disruptive to our business and management and have a material adverse effect on our business, operating results and financial condition.

We are dependent on the continued participation and level of service of our third-party professional service providers and our indirect sales partners.

We rely on third-party service providers to provide certain services to us and/or our customers, as well as indirect sales partners to pursue additional channel, agency and OEM distribution partnerships. If any of these third-party service providers stop supporting our solution or if our network of providers does not expand, we will likely have to expand our internal team to meet the needs of our customers, which could increase our operating costs and result in lower gross margins. To the extent that we are unable to recruit alternative partners, or to expand our internal team, our revenue and operating results would be harmed.

We use open source software in our products, which could subject us to litigation or other actions.

We use open source software in our marketing solutions and may use more open source software in the future. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software. We could also be subject to lawsuits by authors or other third parties that distribute open source software alleging that we had not complied with the conditions of one or more of these licenses. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our products. In addition, if we were to combine our proprietary software products with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software products. If we inappropriately use open source software, we may be required to re-engineer our products, discontinue the sale of our products or take other remedial actions.

Existing federal, state and foreign laws that regulate privacy rights, including online tracking, the sending of commercial emails and text messages, and other activities, could impact the use of our marketing solution and potentially subject us to regulatory enforcement or private litigation.

Certain aspects of how we operate and how our customers utilize our solution are subject to legislation and regulations in the United States, the European Union and elsewhere. These regulations and legislation seek, among other things, to allow consumers to have greater control over the collection, use and disclosure of personal information collected online and could therefore have a significant impact on the operation of our marketing solutions and could impair our attractiveness to customers, which would harm our business.

Many of our customers and potential customers in the healthcare, financial services and other industries are subject to substantial regulation regarding their collection, use and protection of data and may be the subject of further regulation in the future. These regulations may change the way these customers do business and may require us to implement additional features or offer additional contractual terms to satisfy customer and regulatory requirements, or could cause the demand for and sales of our marketing solutions to decrease and adversely impact our financial results.

In addition, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 establishes certain requirements for senders of commercial email messages, such as providing recipients with the ability to opt out of receiving future commercial emails from the sender. The ability of our customers' message recipients to opt out of receiving commercial emails may minimize the effectiveness of the email components of our marketing solutions. The Telephone Consumer Protection Act allows companies to send some types of commercial text messages only when the recipient has opted into the receipt of such text messages. In addition, certain states and foreign jurisdictions, such as Australia, Canada and the European Union, have enacted laws that regulate sending email, and some of these laws are more restrictive than those of the United States. For example, Canada's Anti-Spam Legislation prohibits sending unsolicited email unless the recipient has provided the sender advance consent to receipt of such email, or in other words has "opted-in" to receiving it. A requirement that recipients opt into, or the ability of recipients to opt out of, receiving commercial emails and texts may minimize the effectiveness of our solutions.

With regard to data transfers of personal data from our European employees and customers to the United States, we have historically relied primarily on our adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established means for legitimizing the transfer of personal data by U.S. companies doing business in Europe from the European Economic Area (EEA), to the United States. As a result of the October 6, 2015 European Union Court of Justice (ECJ), opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) (the "ECJ Ruling"), the U.S.-EU Safe Harbor Framework was deemed an invalid method of compliance with restrictions set forth in EU Directive 95/46/EC (and member states' implementations thereof) regarding the transfer of personal data outside of the EEA. In light of the ECJ Ruling, we have provided alternative solutions to legitimize our transfers of personal data from the EEA to the United States. However, these alternative solutions may be challenged or deemed insufficient, whether as a result of future ECJ rulings, changes in EU Directive 95/46/EC (and member states' implementations thereof), successor EU data protection regulations, or otherwise, and we may experience reluctance or refusal by European customers to use our solutions due to potential risk exposure as a result of the ECJ Ruling. We and our customers may face a risk of enforcement actions taken by EU data protection authorities until the time, if any, that personal data transfers to us and by us from the EEA are legitimized under an alternative government-sponsored alternative to the U.S.-EU Safe Harbor Framework. The European Union and United States reached political agreement on February 2, 2016, regarding the U.S.-EU Privacy Shield, a potential means to legitimize data transfers from the European Union to the United States, but it is unclear whether or when it will go into effect, and there can be no assurance that we will be able to implement the U.S.-EU Privacy Shield or that it will be appropriate for our purposes.

The foregoing legislation and regulations are dynamic and change frequently, with new legislation and regulations proposed and adopted frequently, and legislation and regulations subject to invalidation or new or changed interpretation. For example, the European Commission recently adopted a general data protection regulation, effective May 2018, that will supersede current EU data protection legislation, impose more stringent EU data protection requirements, and provide for greater penalties for noncompliance. In addition, United States, state and foreign jurisdictions are considering and may in the future enact legislation or laws restricting marketing activities in mobile, social and web channels. Any of the foregoing existing or future restrictions could require us to change one or more aspects of the way we operate our business, which could impair our ability to attract and retain customers, or increase our operating costs or otherwise harm our business. We may be unable to pass along those costs to our clients in the form of increased subscription fees.

While these laws and regulations generally govern our customers' use of our solution, we may face liability or reputational harm as a result of the activities of our customers, and we may be directly subject to certain laws as a data processor on behalf of, or as a business associate of, our customers. In addition, customers may engage in prohibited activities or upload or store content with us in violation of applicable law or the customers' own policies, which could subject us to liability or harm our reputation. If we were found to be in violation of any of these laws or regulations as a result of government enforcement or private litigation, we could be subjected to civil and criminal sanctions, including both monetary fines and injunctive action that could force us to change our business practices, all of which could adversely affect our financial performance and significantly harm our reputation and our business.

Privacy concerns and consumers' acceptance of Internet behavior tracking may limit the applicability, use and adoption of our marketing solutions.

Privacy concerns may cause consumers to resist providing the personal data necessary to allow our customers to use our service effectively. We have implemented various features intended to enable our customers to better protect consumer privacy, but these measures may not alleviate all potential privacy concerns and threats. For example, the ECJ Ruling had the effect of invalidating the Safe Harbor framework discussed above. As a result, the framework no longer provides a valid legal basis for companies to transfer personal data from the European Union to the United States. Companies, including our customers, must comply with relevant aspects of European Union data protection laws using alternate mechanisms, and our customers may not implement the alternate mechanisms that we offer. Additionally, our alternative measures may be challenged or deemed insufficient. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries. In addition to government activity, privacy advocacy groups and the marketing and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. The costs of compliance with, and other burdens imposed by, the foregoing laws, regulations, policies and actions may limit the use and adoption of our cloud-based marketing solutions and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance or loss of any such action.

We may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales, which could harm our business.

State, local and foreign jurisdictions have differing rules and regulations governing sales, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of such taxes to our subscription cloud-based marketing solutions in various jurisdictions is unclear, and we may be subject to additional local

jurisdictional taxes in the future. Further, these jurisdictions' rules regarding tax nexus are complex and vary significantly. As a result, we could face the possibility of tax assessments and audits, and our liability for these taxes and associated penalties could exceed our original estimates. A successful assertion that we should be collecting additional sales, use, value added or other taxes in those jurisdictions where we have not historically done so and do not accrue for such taxes could result in substantial tax liabilities and related penalties for past sales, discourage customers from purchasing our application or otherwise harm our business and operating results.

Changes in tax laws or regulations that are applied adversely to us or our customers could increase the costs of our cloud-based marketing solutions and adversely impact our business.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Any new taxes could adversely affect our domestic and international business operations, and our business and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. These events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our customers to pay fines and/or penalties and interest for past amounts deemed to be due. If we raise our prices to offset the costs of these changes, existing and potential future customers may elect not to continue or purchase our marketing solutions in the future.

Additionally, new, changed, modified or newly interpreted or applied tax laws could increase our customers' and our compliance, operating and other costs, as well as the costs of our solutions. Any or all of these events could adversely impact our business and financial performance.

We are a multinational organization faced with increasingly complex tax issues in many jurisdictions, and we could be obligated to pay additional taxes in various jurisdictions.

As a multinational organization, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and operating results. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and the results of our operations.

The investment of our cash and cash equivalents including money market funds are subject to risks which may cause losses and affect the liquidity of these investments.

Our investments include various money market funds which invest in securities such as United States Treasury securities, U.S. government agency securities, bank certificates of deposit and commercial paper. Weakened financial markets have at times adversely impacted the general credit, liquidity, market prices and interest rates for these and other types of debt securities. Additionally, changes in monetary policy by the Federal Open Market Committee and concerns about the rising U.S. government debt level may cause a decrease in the purchasing power of the United States dollar and adversely affect our investment portfolio. Furthermore, if there is a default or downgrade of U.S. government or agency debt securities, our investment portfolio may be adversely impacted, requiring impairment charges that could adversely affect our liquidity, financial position, results of operations or cash flows. The financial market and monetary risks associated with our investment portfolio may have a material adverse effect on our financial condition, liquidity, results of operations or cash flows.

Failure to comply with laws and regulations could harm our business.

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, data privacy, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results and financial condition could be harmed. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could further harm our business, operating results and financial condition.

Catastrophic events may disrupt our business.

We rely heavily on our data centers, network infrastructure and information technology systems for our business operations. A disruption or failure of these systems in the event of online attack, earthquake, fire, terrorist attack, power loss, telecommunications failure or other similar catastrophic event could cause system interruptions, delays in accessing our service, reputational harm and loss of critical data or could prevent us from providing our solutions to our customers. We host our solutions at several facilities in the

United States, the European Union, and Australia. We are headquartered and most of our employees reside in the San Francisco Bay Area, an area particularly susceptible to earthquakes, and a major earthquake or other catastrophic event could affect our employees, who may not be able to access our systems or otherwise continue to provide our solutions to our customers. We maintain a facility in Israel, and our operations there may be adversely affected by political instability or international conflict in that region. A catastrophic event that results in the destruction or disruption of our data centers, or our network infrastructure or information technology systems, or access to our systems, could affect our ability to conduct normal business operations and adversely affect our operating results.

The requirements of being a public company may strain our systems and resources, divert management's attention and be costly.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act) the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and the rules and regulations of The NASDAQ Stock Market. The requirements of these rules and regulations increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources.

The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing the costly process of implementing and testing our systems to report our results as a public company, to continue to manage our growth and to implement internal controls. We are and will continue to be required to implement and maintain various other control and business systems related to our equity, finance, treasury, information technology, other recordkeeping systems and other operations. As a result of this implementation and maintenance, management's attention may be diverted from other business concerns, which could adversely affect our business. Furthermore, we rely on third-party software and system providers for meeting our reporting obligations and ensuring effective internal controls, and to the extent these third parties fail to provide adequate service including as a result of any inability to scale to handle our growth and the imposition of these increased reporting and internal controls and procedures, we could incur material costs for upgrading or switching systems and our business could be materially affected.

As a result of being a public company, our business and financial condition have become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the time and resources of our management and adversely affect our business and operating results.

As a result of the Merger, our common stock will no longer be publicly traded, and will be delisted from the NASDAQ. In addition, we will no longer file periodic reports with the SEC.

As a public company, we are obligated to develop and maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment must include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. We may experience difficulty in meeting these reporting requirements in a timely manner, particularly if material weaknesses or significant deficiencies persist. In the past certain significant deficiencies have been identified in our internal financial and accounting controls and procedures. In addition, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the date we are no longer an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act). If we are unable to comply with the requirements of Section 404 in a timely manner, the market price of our stock could decline and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities, which would require additional financial and management resources.

Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting. Ineffective disclosure controls and procedures or internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock.

Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act in a timely manner, that our internal controls are perceived as inadequate or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and our stock price could decline.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported operating results.

Generally accepted accounting principles (U.S. GAAP) in the United States are subject to interpretation by the FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. Accounting for revenue from sales of subscriptions to software is particularly complex, is often the subject of intense scrutiny by the SEC, and will evolve as the FASB continues to consider applicable accounting standards in this area.

For example, the FASB is currently working together with the International Accounting Standards Board to converge certain accounting principles and facilitate more comparable financial reporting between companies that are required to follow U.S. GAAP and those that are required to follow International Financial Reporting Standards. In connection with this initiative, the FASB issued a new accounting standard for revenue recognition in May 2014—Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)"—that supersedes nearly all existing U.S. GAAP revenue recognition guidance. Although we are currently in the process of evaluating the impact of ASU 2014-09 on our consolidated financial statements, it could change the way we account for the costs to obtain or fulfill a contract with a customer or for certain of our sales transactions. Adoption of the standard could have a significant impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption.

In addition, certain factors have in the past and may in the future cause us to defer recognition for subscription fees. For example, the inclusion in our customer contracts of material non-standard terms, such as acceptance criteria, could require the deferral of subscription revenue. To the extent that such contracts become more prevalent in the future our revenue may be adversely affected.

Because of these factors and other specific requirements under U.S. GAAP for revenue recognition, we must have very precise terms in our arrangements in order to recognize revenue when we initially deliver our hosting services or perform our professional services. Negotiation of mutually acceptable terms and conditions can extend our sales cycle, and we may accept terms and conditions that do not permit revenue recognition at the time of delivery.

Our stock price may be volatile and may decline regardless of our operating performance resulting in substantial losses for investors purchasing shares of our stock.

The trading prices of the securities of technology companies, including providers of software via the cloud-based model, have been highly volatile. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and other operating results, including as a result of the addition or loss of any number of customers;
- announcements by us, our strategic partners or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of us, changes in ratings and financial estimates and the publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

- changes in operating performance and stock market valuations of cloud-based software or other technology companies, or those in our industry in particular;
- changes in the competitive environment in which we operate and its effect on our revenue and other operating results;
- price and volume fluctuations in the trading of our common stock and in the overall stock market, including as a result of trends in the economy as a whole;
- announcements by us with regard to the effectiveness of our internal controls and our ability to accurately report financial results;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business our industry;
- lawsuits threatened or filed against us, including the litigation described under "Item 1—Legal Proceedings";;
- changes in key personnel;
- events in relation to the Merger, including any failure to complete the Merger; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies.

In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

If securities or industry analysts do not continue to publish research or publish incorrect or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. If no or few securities or industry analysts cover our company, the trading price for our stock could be negatively impacted. If one or more of the analysts who covers us downgrades our stock or publishes incorrect or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters including the ability to influence the outcome of director elections and other matters requiring stockholder approval.

Our executive officers, directors, current five percent or greater stockholders and affiliated entities together beneficially own a significant portion of our common stock outstanding as of June 30, 2016. As a result, these stockholders, acting together, have significant influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate action might be taken even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds to invest in future growth opportunities. Additional financing may not be available on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could seriously harm our business and operating results. If we incur debt, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock.

Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. As a result, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

Substantial future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

The market price for our common stock could decline as a result of the sale of substantial amounts of our common stock, particularly sales by our directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares.

In addition, certain holders of our common stock as of June 30, 2016 have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders.

In addition, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans have become eligible for sale in the public, subject to certain legal and contractual limitations.

Anti-takeover provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. Our amended and restated certificate of incorporation and bylaws include provisions that:

- authorize “blank check” preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- provide for a classified board of directors whose members serve staggered three-year terms;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of the board, the chief executive officer or the president;
- prohibit stockholder action by written consent;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors;
- authorize our board of directors to modify, alter or repeal our amended and restated bylaws; and
- require supermajority votes of the holders of our common stock to amend specified provisions of our charter documents.

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

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us in certain circumstances.

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

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. In addition, any future financing or credit agreements may prohibit us from paying any type of dividends. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares. Investors seeking cash dividends should not purchase our common stock.

We are an "emerging growth company" and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we are able to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced financial disclosure obligations, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments not previously approved. We may take advantage of these provisions for up to five years or such earlier time that we are no longer an "emerging growth company." We would cease to be an "emerging growth company" upon the earliest to occur of: the last day of the fiscal year in which we have more than $1.0 billion in annual revenue; the date we qualify as a "large accelerated filer," with at least $700 million of equity securities held by non-affiliates; the issuance, in any three-year period, by us of more than $1.0 billion in non-convertible debt securities; and the last day of the fiscal year ending after the fifth anniversary of our initial public offering. We may choose to take advantage of some but not all of these reduced reporting burdens. Because we take advantage of some of these reduced reporting requirements, the information that we provide our security holders in future filings may be different than you might get from other public companies in which you hold equity interests.

Commencing January 1, 2017, if our common stock is still publicly traded, we will no longer be an "emerging growth company," and the reduced disclosure requirements applicable to emerging growth companies will no longer apply to us.

We are currently an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012. Because the market value of our common stock held by non-affiliates exceeded $700 million as of June 30, 2016, commencing January 1, 2017, if our common stock is still publicly traded, we will be deemed a large accelerated filer and, accordingly, will no longer qualify as an emerging growth company. As a large accelerated filer, we would be subject to certain disclosure requirements that apply to other public companies but have not previously applied to us due to our status as an emerging growth company. These requirements include:

- compliance with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- compliance with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;
- full disclosure obligations regarding executive compensation; and
- compliance with the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

As a result of the Merger, our common stock will no longer be publicly traded and we will be delisted from the NASDAQ. In addition, we will no longer file periodic reports with the SEC. Therefore, provided that the Merger is consummated before January 1, 2017, we will not be subject to the disclosure requirements described above.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
2.1	Agreement and Plan of Merger, dated as of May 27, 2016, by and among Milestone Holdco, Inc., a Delaware corporation, Milestone Merger Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of Milestone Holdco, Inc., and Marketo, Inc., a Delaware corporation.	8-K	2.1	May 31, 2016
3.1	Certificate of Incorporation of the Company filed May 22, 2013.	10-Q	3.1	August 9, 2013
3.2	Bylaws of the Company dated May 22, 2013.	10-Q	3.2	August 9, 2013
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith		
101	The following materials from the Marketo, Inc. Form 10-Q for the quarter ended June 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i)the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) Condensed Consolidated Statements of Cash Flows and (iv) Notes to Condensed Consolidated Financial Statements.	Filed herewith		

* The certifications furnished in Exhibit 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

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

Marketo, Inc.

Date: August 3, 2016	By:	/s/ Brian K. Kinion
		Brian K. Kinion
		Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Phillip M. Fernandez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marketo, 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: August 3, 2016

/s/ Phillip M. Fernandez

Phillip M. Fernandez

President, Chief Executive Officer and Director (Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION UNDER SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Brian K. Kinion, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marketo, 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: August 3, 2016

/s/ Brian K. Kinion

Brian K. Kinion

Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Phillip M. Fernandez, the Chief Executive Officer of Marketo, Inc. (the "Company"), hereby certify that, to my knowledge:

(1) this Quarterly Report on Form 10-Q for the period ended June 30, 2016 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, 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: August 3, 2016

/s/ Phillip M. Fernandez

Phillip M. Fernandez

President, Chief Executive Officer and Director (Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Marketo, Inc. and will be retained by Marketo, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Brian K. Kinion, the Senior Vice President and Chief Financial Officer of Marketo, Inc. (the “Company”), hereby certify that, to my knowledge:

(1) this Quarterly Report on Form 10-Q for the period ended June 30, 2016 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, 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: August 3, 2016

/s/ Brian K. Kinion

Brian K. Kinion

Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to Marketo, Inc. and will be retained by Marketo, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.