Tableau Software Inc
Form 10-Q
October 28, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from ____ to ____

Commission File Number: 001-35925

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

Delaware (State or other jurisdiction of incorporation or organization)	47-0945740 (I.R.S. Employer Identification Number)

837 North 34th Street, Suite 200
Seattle, Washington 98103
(Address of principal executive offices and zip code)

(206) 633-3400
(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. x Yes o 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). x Yes o No

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

Large accelerated filer	o		Accelerated filer	o
Non-accelerated filer	x	(Do not check if smaller reporting company)	Smaller reporting company	o

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

As of October 25, 2013, there were approximately 9,430,000 shares of the registrant's Class A common stock and 49,733,362 shares of the registrant's Class B common stock outstanding.

TABLEAU SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter ended September 30, 2013
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Tableau Software, Inc.
Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$226,337	$39,302
Accounts receivable, net	44,173	30,752
Prepaid expenses and other current assets	5,206	2,789
Income taxes receivable	4,521	1,072
Deferred income taxes	2,250	2,246
Total current assets	282,487	76,161
Property and equipment, net	18,184	10,346
Deferred income taxes	190	66
Deposits and other noncurrent assets	836	419
Total assets	$301,697	$86,992
Liabilities, convertible preferred stock and stockholders' equity		
Current liabilities		
Accounts payable	$4,253	$2,176
Accrued and other current liabilities	6,970	4,471
Accrued compensation and employee related benefits	17,228	13,170
Income taxes payable	348	129
Deferred revenue	50,968	31,984
Total current liabilities	79,767	51,930
Deferred income taxes	1,353	1,353
Deferred revenue	3,162	2,423
Other long-term liabilities	2,648	1,312
Total liabilities	86,930	57,018
Commitments and contingencies (Note 6)		
Convertible preferred stock		
Series B convertible preferred stock, par value $0.0001 per share, no shares authorized as of September 30, 2013 and 7,000,000 shares authorized as of December 31, 2012; issued and outstanding, no shares as of September 30, 2013 and 6,585,153 shares as of December 31, 2012 (aggregate liquidation preference of $15,080)	—	15,007
Series A convertible preferred stock, par value $0.0001 per share, no shares authorized as of September 30, 2013 and 10,831,164 shares authorized as of December 31, 2012; issued and outstanding, no shares as of September 30, 2013 and 10,831,164 shares as of December 31, 2012 (aggregate liquidation preference of $5,091)	—	5,024
Total convertible preferred stock	—	20,031
Stockholders' equity		
Preferred stock, par value $0.0001 per share, 10,000,000 shares authorized as of September 30, 2013 and no shares authorized as of December 31, 2012; issued and outstanding, no shares as of September 30, 2013 or December 31, 2012	—	—
Class B common stock, par value $0.0001 per share – authorized, 75,000,000 shares as of September 30, 2013 and December 31, 2012; issued and outstanding, 49,722,528 and	5	4

34,317,137 shares as of September 30, 2013 and December 31, 2012, respectively		
Class A common stock, par value $0.0001 per share – authorized, 750,000,000 shares as of September 30, 2013 and 75,000,000 shares as of December 31, 2012; 9,430,000 shares issued and outstanding as of September 30, 2013, no shares issued and outstanding as of December 31, 2012	1	—
Additional paid-in capital	220,730	11,698
Accumulated other comprehensive loss	(42)	(1)
Accumulated deficit	(5,927)	(1,758)
Total stockholders' equity	214,767	9,943
Total liabilities, convertible preferred stock and stockholders' equity	$301,697	$86,992

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

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Tableau Software, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands, except per share data)			
Revenues				
License	$41,951	$22,112	$101,895	$59,807
Maintenance and services	19,128	10,014	49,086	26,120
Total revenues	61,079	32,126	150,981	85,927
Cost of revenues				
License	237	21	523	170
Maintenance and services	4,341	2,788	11,951	6,809
Total cost of revenues (1)	4,578	2,809	12,474	6,979
Gross profit	56,501	29,317	138,507	78,948
Operating expenses				
Sales and marketing (1)	32,189	15,565	83,426	39,125
Research and development (1)	15,438	8,488	42,514	22,706
General and administrative (1)	6,345	4,278	18,064	10,533
Total operating expenses	53,972	28,331	144,004	72,364
Operating income (loss)	2,529	986	(5,497)	6,584
Other income (expense), net	(177)	(22)	(350)	(49)
Income (loss) before income tax expense (benefit)	2,352	964	(5,847)	6,535
Income tax expense (benefit)	(89)	597	(1,678)	4,052
Net income (loss)	$2,441	$367	$(4,169)	$2,483
Net income (loss) per share attributable to common stockholders:				
Basic	$0.04	$—	$(0.09)	$0.03
Diluted	$0.03	$—	$(0.09)	$0.03
Weighted average shares used to compute net income (loss) per share attributable to common stockholders				
Basic	59,143	33,851	47,093	33,676
Diluted	71,348	39,960	47,093	39,597

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Cost of revenues	$113	$28	$291	$66
Sales and marketing	1,442	350	3,506	933
Research and development	1,473	531	3,785	1,445
General and administrative	702	288	1,951	809
Total stock-based compensation expense	$3,730	$1,197	$9,533	$3,253

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

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Tableau Software, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Net income (loss)	$2,441	$367	$(4,169)	$2,483
Other comprehensive loss:				
Foreign currency translation	(5)	—	(41)	—
Total comprehensive income (loss)	$2,436	$367	$(4,210)	$2,483

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

Tableau Software, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Operating activities		
Net income (loss)	$(4,169)	$2,483
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	4,580	2,657
Provision for doubtful accounts	230	71
Stock-based compensation expense	9,533	3,253
Excess tax benefit from stock-based compensation	(823)	1
Deferred income taxes	701	—
Changes in operating assets and liabilities		
Accounts receivable	(13,479)	(7,116)
Prepaid expenses, deposits and other assets	(2,812)	(1,674)
Income taxes receivable	(3,453)	—
Deferred revenue	19,527	11,822
Accounts payable and accrued liabilities	9,028	2,712
Income taxes payable	216	1,106
Net cash provided by operating activities	19,079	15,315
Investing activities		
Purchase of property and equipment	(11,515)	(5,461)
Net cash used in investing activities	(11,515)	(5,461)
Financing activities		
Proceeds from public offering, net of underwriters' discount and offering costs	176,974	—
Proceeds from issuance of common stock upon exercise of stock options	1,672	284
Excess tax benefit from stock-based compensation	823	(1)
Net cash provided by financing activities	179,469	283
Effect of exchange rate changes on cash and cash equivalents	2	—
Net increase in cash and cash equivalents	187,035	10,137
Cash and cash equivalents		
Beginning of period	39,302	30,223
End of period	$226,337	$40,360

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

Tableau Software, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
Note 1. Description of Business

Tableau Software, Inc. (the “Company” "we", "us" or "our"), a Delaware corporation, and its wholly-owned subsidiaries are headquartered in Seattle, Washington. Our software products put the power of data into the hands of everyday people, allowing a broad population of business users to engage with their data, ask questions, solve problems and create value. Based on innovative core technologies originally developed at Stanford University, our products dramatically reduce the complexity, inflexibility and expense associated with traditional business intelligence applications. We currently make four key products; Tableau Desktop, a self-service, powerful analytics product for anyone with data; Tableau Server, a business intelligence platform for organizations; Tableau Online, a cloud-based hosted version of Tableau Server; and Tableau Public, a free cloud-based platform for analyzing and sharing public data.
Note 2. Summary of Significant Accounting Policies
Basis of Presentation

The consolidated balance sheet data as of December 31, 2012 was derived from audited consolidated financial statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for unaudited consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2012 included in the Company’s prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933 with the SEC on May 20, 2013. The accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of its operations, as of and for the periods presented. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or for any other period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include depreciable lives for property and equipment, stock-based compensation, income taxes, accrued liabilities, and collectability of accounts receivable. Actual results could differ from those estimates.

Initial Public Offering
On May 22, 2013, we completed our initial public offering ("IPO") whereby 9,430,000 shares of Class A common stock were sold to the public at a price of $31.00 per share. We sold 6,230,000 shares of Class A common stock and the selling stockholders sold 3,200,000 shares of Class A common stock. We received aggregate proceeds of $177.0 million from the IPO, net of underwriters’ discounts and commissions, and offering expenses. Upon the closing of the IPO, all shares of our outstanding convertible preferred stock automatically converted into shares of Class B common stock.

Segments

We follow the authoritative literature that established annual and interim reporting standards for enterprise's operating segments and related disclosures about its products and services, geographic regions and major customers.

We operate our business as one operating segment. Our chief operating decision makers ("CODM") are our Chief Executive Officer and Chief Financial Officer, who review financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance and allocating resources.

Revenue Recognition

We generate revenues primarily in the form of software license fees and related maintenance and services fees. License fees include perpetual, term and subscription license fees. Maintenance and services fees primarily consist of fees for maintenance services (including support and unspecified upgrades and enhancements when and if they are available), training, and professional services that are not essential to functionality of the software.

We recognize revenues when all of the following conditions are met:

- there is persuasive evidence of an arrangement;
- the software or services have been delivered to the customer;
- the amount of fees to be paid by the customer is fixed or determinable; and
- the collection of the related fees is probable.

We use click-through license agreements, signed agreements and purchase orders as evidence of an arrangement. We deliver all of our software electronically. Electronic delivery occurs when we provide the customer with access to the software via a secure portal. We assess whether the fee is fixed or determinable at the outset of the arrangement. Our typical terms of payment are due 30 days from delivery. We assess collectability based on a number of factors such as collection history and creditworthiness of the customer. If we determine that collectability is not probable, revenue is deferred until collectability becomes probable, generally upon receipt of cash.

Substantially all of our software licenses are sold in multiple-element arrangements that include maintenance and may include professional services and training.

Vendor specific objective evidence ("VSOE") of the fair value is not available for software licenses as they are never sold without maintenance. VSOE of the fair value generally exists for all undelivered elements and any services that are not essential to the functionality of the delivered software. We account for delivered software licenses under the residual method.

Maintenance agreements consist of fees for providing software updates on a when and if available basis and technical support for software products ("post-contract support" or "PCS") for an initial term, generally one year. We have established VSOE of the fair value for maintenance on perpetual licenses based on stated substantive renewal rates or the price when sold on a standalone basis. Stated renewal rates are considered to be substantive if they are at least 15% of the actual price charged for the software license. VSOE of the fair value for standalone sales is considered to have been established when a substantial majority of individual sales transactions within the previous 12 month period fall within a reasonably narrow range, which we have defined to be plus or minus 15% of the median sales price of actual standalone sales transactions.

License arrangements may include professional services and training. In determining whether professional services and training revenues should be accounted for separately from license revenues, we evaluate whether such services are considered essential to the functionality of the software using factors such as the nature of the software products; whether they are ready for use by the customer upon receipt; the nature of the services, which typically do not involve significant customization to or development of the underlying software code; the availability of services from other vendors; whether the timing of payments for license revenues is coincident with performance of services; and whether milestones or acceptance criteria exist that affect the realizability of the software license fee. Revenues related to training are recognized as training services are delivered. Payments received in advance of services performed are deferred and recognized when the related services are performed.

To date, professional services have not been considered essential to the functionality of the software. The VSOE of fair value of our professional services and training is based on the price for these same services when they are sold separately. Revenues related to professional services are billed on a time and materials basis and, accordingly, are recognized as the services are performed.

When software is licensed for a specified term or on a subscription basis, fees for support and maintenance are generally bundled with the license fee over the entire term of the contract. In these cases, we do not have VSOE of the fair value for support and maintenance. Revenues related to term license fees are recognized ratably over the contract term beginning on the date the customer has access to the software license key and continuing through the end of the contract term.

We do not offer refunds and therefore have not recorded any sales return allowance for any of the periods presented. Upon a periodic review of outstanding accounts receivable, amounts that are deemed to be uncollectable are written off against the allowance for doubtful accounts.

We account for taxes collected from customers and remitted to governmental authorities on a net basis and exclude them from revenues.

Software Development Costs

Software development costs associated with the development of new products, enhancements of existing products and quality assurance activities consists of employee, consulting and other external personnel costs. The costs incurred internally from the research and development of computer software products are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for release to customers. Judgment is required in determining when technological feasibility of a product is established. To date, we have determined that technological feasibility of software products is reached shortly before the products are released. Costs incurred after establishment of technological feasibility have not been material, and therefore, we have expensed all research and development costs as they were incurred. Research and development expenses primarily consist of personnel related costs attributable to our research and development personnel and allocated overhead.

We capitalize certain costs relating to software acquired, developed, or modified solely to meet our internal requirements and for which there are no substantive plans to market the software. To date, we have not capitalized any costs.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We extend credit to customers based upon an evaluation of the customer’s financial condition and generally collateral is not required. As of September 30, 2013, no individual customer accounted for 10% or more of total accounts receivable. As of December 31, 2012, one customer accounted for 10% or more of total accounts receivable. For the three and nine months ended September 30, 2013 and the three and nine months ended September 30, 2012, no individual customer represented 10% or more of our total revenues.

Stock-Based Compensation

Compensation expense related to stock-based transactions, including employee and nonemployee director stock option and Restricted Stock Unit ("RSU") awards, is measured and recognized in the financial statements based on fair value. The fair value of each RSU award is based on the number of shares granted and the closing price of our Class A common stock on the New York Stock Exchange on the date of grant. The fair value of each stock option award is determined at the date of grant by applying the Black-Scholes option pricing model. This model utilizes the estimated value of our underlying Class A common stock and Class B common stock (together, “common stock”) at the measurement date, the expected or contractual term of the option, the expected volatility of our common stock, risk-free interest rates and expected dividend yield of our common stock. Measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. We recognize compensation expense for only the portion of awards expected to vest. Therefore, management applied an estimated forfeiture rate that was derived from historical employee termination behavior. If the actual number of forfeitures differs from the estimates, adjustments to stock-based compensation expense may be required in future periods.

Fair Value Measurements

We categorize assets and liabilities recorded at fair value on our consolidated balance sheets based upon the level of judgment associated with inputs used to measure their fair value. The levels of the fair value hierarchy are as follows:

- Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- Level 3—Inputs are unobservable inputs based on our own assumptions and valuation techniques used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists," ("ASU 2013-11"). ASU 2013-11 requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law. ASU 2013-11 is effective for us in our first quarter of 2014 with earlier adoption permitted. We are currently evaluating the impact of our pending adoption of ASU 2013-11 on our consolidated financial statements.

As an “emerging growth company”, the Jumpstart Our Business Startups Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies.

Note 3. Stockholders' Equity

Common Stock

Our certificate of incorporation, as amended and restated, authorizes us to issue 75,000,000 shares of Class B common stock, $0.0001 par value per share, and 750,000,000 shares of Class A common stock, $0.0001 par value per share. Each holder of Class B common stock is entitled to ten votes per share and each holder of Class A common stock is entitled to one vote per share. At its discretion, the board of directors may declare dividends on shares of common stock, subject to the rights of our preferred stockholders, if any. Upon liquidation or dissolution, holders of common stock will receive distributions only after preferred stock preferences have been satisfied.

In May 2013, upon the closing of our IPO, 6,585,153 shares of Series B convertible preferred stock and 10,831,164 shares of Series A convertible preferred stock converted into 17,416,317 shares of our Class B common stock. We issued 6,230,000 shares of Class A common stock in the IPO. In addition, 3,200,000 shares of Class B common stock (including 2,000,000 shares of Class B common stock issued upon the conversion of our preferred stock) held by our existing stockholders were converted into Class A common stock and sold in the IPO.

Note 4. Stock-Based Compensation

A summary of the option activity under our stock option plan during the nine months ended September 30, 2013 is presented below:

	Options Outstanding		
	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (in thousands)
Balances at December 31, 2012	15,398,221	$4.92	
Options granted	1,341,550	23.18	
Options exercised	(1,135,956)	1.47	
Options canceled	(7,578)	6.81	
Options forfeited	(261,897)	8.51	
Balances at September 30, 2013	15,334,340	$6.71	$989,592
Vested and expected to vest at September 30, 2013	14,341,565	$6.43	$929,520
Exercisable at September 30, 2013	7,938,908	$2.96	$542,102

We grant RSU awards to our employees and non-employee directors under the provisions of the 2013 Plan. The fair value of a RSU is determined by using the closing price of our Class A common stock on the New York Stock Exchange on the date of grant. A RSU award entitles the holder to receive shares of the Company’s Class A common stock as the award vests, which is generally based on length of service. Stock-based compensation expense is amortized on a straight-line basis over the vesting period.

The following provides a summary of our RSU activity during the nine months ended September 30, 2013:

	Number of Shares Underlying Outstanding RSUs	Weighted-Average Grant-Date Fair Value per RSU	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2012	—	—	
RSUs granted	133,350	60.15	
RSUs vested	—	—	
RSUs forfeited	(1,000)	53.82	
Outstanding at September 30, 2013	132,350	60.20	$9,429
Expected to vest at September 30, 2013	113,661		$8,097

As of September 30, 2013, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock awards was approximately $39.4 million and the weighted-average remaining vesting period was 3.2 years.

A fully-vested warrant to purchase 54,167 shares of our Class B common stock at an exercise price of $0.60 per share was exercised on May 16, 2013.

Equity based awards (including stock options and RSUs) are available for issuance as follows:

	Shares Available for Grant
Balances at December 31, 2012	6,907,924
Granted	(1,474,900)
Canceled	7,578
Forfeited	262,897
Balances at September 30, 2013	5,703,499

Note 5. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of:

	September 30, 2013	December 31, 2012
	(in thousands)	
Accrued liabilities	$6,702	$4,471
Other current liabilities	268	—
Total accrued and other current liabilities	$6,970	$4,471

Note 6. Commitments and Contingencies

As of September 30, 2013, our principal obligations consisted of obligations outstanding under operating leases. We lease our facilities under operating leases that expire at various dates through 2020. The following table represents our operating lease obligations as of September 30, 2013 (in thousands):

Period Ending	
Remainder of 2013	$1,213
2014	5,984
2015	4,616
2016	3,266
2017	2,600
Thereafter	2,664
Total minimum lease payments	$20,343

We are subject to certain routine legal proceedings, as well as demands and claims that arise in the normal course of our business. We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

We are not aware of any pending legal proceedings that, individually or in the aggregate, would have a material adverse effect on our business, operating results, or financial conditions. We may in the future be party to litigation arising in the ordinary course of business, including claims that we allegedly infringe upon third party intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

Note 7. Segments and Information about Revenues by Geographic Area

The following table presents our revenues by geographic region of end users who purchased products or services for the periods presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
United States and Canada	$49,887	$27,086	$122,905	$72,338
International	11,192	5,040	28,076	13,589
Total revenues	$61,079	$32,126	$150,981	$85,927

Substantially all of our long-lived assets are located in the United States as of September 30, 2013 and December 31, 2012.

Note 8. Net Income (Loss) Per Share

Immediately prior to the closing of the our IPO, all outstanding shares of Series A preferred stock and Series B preferred stock were converted to Class B common stock. We issued 6,230,000 shares of Class A common stock in the IPO. In addition, 3,200,000 shares of Class B common stock (including 2,000,000 shares of Class B common stock issued upon the conversion of our preferred stock) held by our existing stockholders were converted into Class A common stock and sold in the IPO. As a result, as of September 30, 2013, Class A and Class B common stock are the only outstanding classes of capital stock of the Company. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each holder of Class B common stock is entitled to ten votes per share and each share of Class A common stock is entitled to one vote per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder, and are automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions.

Net income per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities for periods in which we have net income. Holders of Series A preferred stock and Series B preferred stock were entitled to receive non-cumulative dividends at the per annum rate of $0.0282 and $0.1374 per share, payable prior and in preference to any dividends on any other shares of our stock. Holders of Series A preferred stock and Series B preferred stock did not have a contractual obligation to share in our losses. We consider our convertible preferred stock to be participating securities and, in accordance with the two-class method, earnings allocated to preferred stock and the related number of outstanding shares of preferred stock have been excluded from the computation of basic and diluted net income per common share. The computation of diluted net income per share does not assume conversion or exercise of potentially dilutive securities that would have an anti-dilutive effect on earnings. We utilize the if-converted method to compute diluted net income (loss) per common share when the if-converted method is more dilutive than the two-class method.

Under the two-class method, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period Series A and Series B convertible preferred stock non-cumulative dividends, between common stock and Series A and Series B convertible preferred stock. In computing diluted net income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding, including potential dilutive common shares assuming the dilutive effect of outstanding stock options using the treasury stock method.

The following table presents the computation of basic and diluted net income (loss) per share attributable to common stockholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
Basic net income (loss) attributable to common stockholders:				
Net income (loss)	$2,441	$367	$(4,169)	$2,483
Less: Undistributed earnings allocated to participating securities	—	303	—	908
Less: Allocation of net income to participating preferred shares - basic	—	22	—	537
Net income (loss) attributable to common stockholders - basic	$2,441	$42	$(4,169)	$1,038
Weighted average shares outstanding used to compute basic net income (loss) per share	59,143	33,851	47,093	33,676
Net income (loss) per share attributable to common stockholders - basic	$0.04	$—	$(0.09)	$0.03
Diluted net income (loss) attributable to common stockholders:				
Net income (loss)	$2,441	$367	$(4,169)	$2,483
Less: Undistributed earnings allocated to participating securities	—	303	—	908
Less: Allocation of net income to participating preferred shares - diluted	—	19	—	481
Net income (loss) attributable to common stockholders - diluted	$2,441	$45	$(4,169)	$1,094
Weighted average shares used to compute basic net income (loss) per share	59,143	33,851	47,093	33,676
Effect of potentially dilutive shares:				
Stock awards	12,205	6,078	—	5,890
Warrants	—	31	—	31
Weighted average shares used to compute diluted net income (loss) per share	71,348	39,960	47,093	39,597
Net income (loss) per share attributable to common stockholders - diluted	$0.03	$—	$(0.09)	$0.03

For the nine months ended September 30, 2013 outstanding stock options were antidilutive because of our net loss, and as such, their effect has not been included in the calculation of basic or diluted net loss per share attributable to common stockholders.

The following shares subject to outstanding awards and convertible preferred shares were excluded from the computation of diluted net income (loss) per share attributable to common stockholders for the periods presented as their effect would have been antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Shares subject to outstanding common stock awards	6	—	15,468	—
Convertible preferred shares	—	17,416	—	17,416
Total potentially dilutive shares	6	17,416	15,468	17,416

9. Fair Value Measurements

The following table presents the fair value of our financial assets using the fair value hierarchy:

	September 30, 2013			
Description	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$208,669	$—	$—	$208,669

	December 31, 2012			
Description	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$12,015	$—	$—	$12,015

We have no financial assets or liabilities measured using Level 2 or Level 3 inputs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report and in our prospectus filed with the Securities and Exchange Commission, or SEC, pursuant to Rule 424(b) under the Securities Act of 1933, as amended, or the Securities Act, on May 20, 2013.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expe “intend,” “may,” “plan,” “project,” “seek,” “should,” “strategy,” “target,” “will,” “would” and similar expressions or variations identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results 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. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Our mission is to help people see and understand data. Our software products put the power of data into the hands of everyday people, allowing a broad population of business users to engage with their data, ask questions, solve problems and create value. Based on innovative core technologies originally developed at Stanford University, our products dramatically reduce the complexity, inflexibility and expense associated with traditional business intelligence applications. We currently offer four products: Tableau Desktop, a self-service analytics product for anyone with data; Tableau Server, a business intelligence platform for organizations; Tableau Online, a cloud-based hosted version of Tableau Server; and Tableau Public, a free cloud-based platform for analyzing and sharing public data.

We have sought to rapidly improve the capabilities of our products over time and intend to continue to invest in product innovation and leadership. We were founded in January 2003 and we introduced Tableau Desktop in December 2003, our first version of Tableau Server in March 2007, our first version of Tableau Public in February 2010 and our first version of Tableau Online in July 2013. Building on our foundational technology innovations, we have released eight major versions of our software, each expanding and improving our products' capabilities. Our most recent release, Tableau 8.0, includes several new features including Web and mobile authoring, free form dashboards, forecasting, integration with enterprise applications such as salesforce.com and Google Analytics, and application programming interfaces, or APIs.

Our products are used by people of diverse skill levels across all kinds of organizations, including Fortune 500 corporations, small and medium-sized businesses, government agencies, universities, research institutions, and non-profits. As of September 30, 2013, we had over 15,000 customer accounts located in over 100 different countries. We define a customer account as a purchaser of our products. Customer accounts are typically organizations. In some cases, organizations will have multiple groups purchasing our software, which we count as discrete customer accounts.

Our distribution strategy is based on a “land and expand” business model and is designed to capitalize on the ease of use, low up-front cost and collaborative capabilities of our software. To facilitate rapid adoption of our products, we provide fully-functional free trial versions of our products on our website and have created a simple pricing model. After an initial trial or purchase, which is often made to target a specific business need at a grassroots level within an organization, the use of our products often spreads across departments, divisions, and geographies, via word-of-mouth, discovery of new use cases, and our sales efforts.

We generate revenues primarily in the form of license fees and related maintenance and services fees. License revenues reflect the revenues recognized from sales of licenses to new customer accounts and additional licenses to existing customer accounts. License fees include perpetual, term, and subscription license fees. Maintenance and services revenues reflect the revenues recognized from fees paid for maintenance services (including support and unspecified upgrades and enhancements when and if they are available) and, to a lesser extent, for training and professional services that help our customers maximize the benefits from using our products. A substantial majority of our maintenance and services revenues to date has been attributable to revenues from maintenance agreements. When purchasing a license, a customer also typically purchases one year of maintenance service and has the opportunity to purchase maintenance service annually thereafter. We expect maintenance and services revenues to become a larger percentage of our total revenues as our customer base grows.

Our direct sales approach includes inside sales teams and field sales teams. We also sell our products through indirect sales channels including technology vendors, resellers, original equipment manufacturers, or OEMs, and independent software vendors, or ISVs. We view these partners as an extension of our team, playing an integral role in our growth. We plan to continue to invest in our partner programs to help us enter and grow in new markets while complementing our direct sales efforts.

With approximately 18% and 19% of our total revenues from customers located outside the United States and Canada in the three and nine months ended September 30, 2013, respectively, we believe there is significant opportunity to expand our international business. Our products currently support eight languages and we are aggressively expanding our direct sales force and indirect sales channels outside the United States.

Our quarterly results reflect seasonality in the sale of our products and services. Historically, we believe a pattern of increased license sales, in the fourth fiscal quarter as a result of industry buying patterns, has positively impacted total revenues in that period, which has resulted in low or negative sequential revenue growth in the first quarter compared to the prior quarter.

We have been growing rapidly in recent periods. Our total revenues for the three and nine months ended September 30, 2013 were $61.1 million and $151.0 million, respectively, compared to $32.1 million and $85.9 million for the three and nine months ended September 30, 2012, respectively. We increased the total number of customer accounts that had purchased our products to over 15,000 as of September 30, 2013. During this period, we significantly increased the size of our workforce, particularly in our sales and marketing and research and development organizations, expanded internationally, and invested in our operational infrastructure to support our growth. As a result of our significant investments in growth, our net income did not grow in a manner commensurate with our total revenues. Our net income (loss) for the three and nine months ended September 30, 2013 was $2.4 million and $(4.2) million, respectively, compared to $0.4 million and $2.5 million for the three and nine months ended September 30, 2012, respectively.

Factors Affecting Our Performance

We believe that our performance and future success are dependent upon a number of factors, including our ability to continue to expand and further penetrate our customer base, innovate and enhance our products, and invest in our infrastructure. While each of these areas presents significant opportunities for us, they also pose significant risks and challenges that we must successfully address. See the section titled “Risk Factors.”

Investment in Expansion and Further Penetration of Our Customer Base

Our performance depends on our ability to continue to attract new customers and to increase adoption of our products within our existing customers, both domestically and internationally. Our ability to increase adoption amongst existing customers is particularly important in light of our land and expand business model. We believe the existing market for business analytics software is underserved. We believe that we have an addressable market that is substantially larger than the market for traditional business analytics software. As a result, we believe we have the opportunity to substantially expand our customer base and to increase adoption of our products within and across our existing customers.

In order to expand and further penetrate our customer base, we have made and plan to continue to make significant investments in expanding our direct sales teams and indirect sales channels, and increasing our brand awareness. We plan to continue to significantly increase the size of our sales and marketing team domestically

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and internationally, particularly in the near term. We also intend to expand our online and offline marketing efforts to increase our brand awareness.

Investment in Innovation and Advancement of Our Products

Our performance is also significantly dependent on the investments we make in our research and development efforts, and in our ability to continue to innovate, improve functionality, adapt to new technologies or changes to existing technologies, and allow our customers to analyze data from a large and expanding range of data stores. For example, we have recently been focusing on a cloud offering and in July 2013 we released Tableau Online, a cloud-based version of Tableau Server. We intend to continue to invest in product innovation and leadership, including hiring top technical talent, focusing on core technology innovation, and maintaining an agile organization that supports rapid release cycles.

Investment in Infrastructure

We have made and expect to continue to make substantial investments in our infrastructure in connection with enhancing and expanding our operations domestically and internationally. We expect to continue to open new sales offices internationally and domestically. Our international expansion efforts have resulted and will result in increased costs and are subject to a variety of risks, including those associated with communication and integration problems resulting from geographic dispersion and language and cultural differences, and compliance with laws of multiple countries. Moreover, the investments we have made and will make in our international organization may not result in our expected benefits. In addition, if Tableau Online is commercially successful, we expect to make additional investments in related infrastructure such as server farms, data centers, network bandwidth and technical operations personnel; however, we currently expect to rely on our current cash on hand and cash generated from our operations to fund these investments. These costs could adversely affect our operating results. We also expect to make additional investments in our infrastructure as we continue to transition to operation as a public company.

Mix and Timing of Sales

Our land and expand business model results in a wide variety of sales transaction sizes, ranging from a single Tableau Desktop order of $1,000-$2,000 to Tableau Desktop and Tableau Server orders of over $1.0 million. The time it takes to close a transaction, defined as the time between when a sales opportunity is entered in our customer relationship management system until when a related license agreement is signed with the customer, generally varies with the size of the transaction.

Non-GAAP Financial Measures

We believe that the use of non-GAAP operating income (loss), non-GAAP net income (loss) and free cash flow is helpful to our investors. These measures, which we refer to as our non-GAAP financial measures, are not prepared in accordance with generally accepted accounting principles in the United States, or GAAP. We calculate non-GAAP operating income (loss) as operating income (loss) excluding stock-based compensation expense. We calculate non-GAAP net income (loss) as net income (loss) excluding stock-based compensation expense and related tax impacts. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expenses, we believe that providing non-GAAP financial measures that exclude stock-based compensation expense allows for more meaningful comparisons between our operating results from period to period. We calculate free cash flow as net cash provided by operating activities less net cash used in investing activities for purchases of property and equipment. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening our balance sheet. All of our non-GAAP financial measures are important tools for financial and operational decision making and for evaluating our own operating results over different periods of time.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial results. Further, stock-based compensation

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expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. We urge our investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

The following table summarizes our non-GAAP financial measures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Non-GAAP operating income	$6,259	$2,183	$4,036	$9,837
Non-GAAP net income	5,554	1,423	4,062	5,333
Free cash flow *			7,564	9,854

* Cash flow presented on a nine month basis only

The following table reflects the reconciliation of operating income (loss) to non-GAAP operating income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Operating income (loss)	$2,529	$986	$(5,497)	$6,584
Excluding: Stock-based compensation expense	3,730	1,197	9,533	3,253
Non-GAAP operating income	$6,259	$2,183	$4,036	$9,837

The following table reflects the reconciliation of net income (loss) to non-GAAP net income :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Net income (loss)	$2,441	$367	$(4,169)	$2,483
Excluding: Stock-based compensation expense, net of tax	3,113	1,056	8,231	2,850
Non-GAAP net income	$5,554	$1,423	$4,062	$5,333

The following table reflects the reconciliation of net cash provided by operating activities to free cash flow:

	Nine Months Ended September 30,	
	2013	2012
	(in thousands)	
Net cash provided by operating activities	$19,079	$15,315
Less: Purchases of property and equipment	11,515	5,461
Free cash flow	$7,564	$9,854

Components of Operating Results

Revenues

License revenues. License revenues consist of the revenues recognized from sales of licenses to new customers and additional licenses to existing customers. In addition, a small number of customers have purchased term or subscription licenses, under which we recognize the license fee ratably, on a straight-line basis, over the term of the license. In July 2013, we introduced Tableau Online, a subscription, cloud-based version of Tableau Server. To date, we have not derived a significant amount of revenues from term or subscription licenses.

Maintenance and services revenues. Maintenance and services revenues consist of revenues from maintenance agreements and, to a lesser extent, professional services and training. A substantial majority of our maintenance and services revenues to date has been attributable to revenues from maintenance agreements. When purchasing a perpetual license, a customer also typically purchases one year of maintenance, and has the opportunity to purchase maintenance annually thereafter. We currently charge approximately 25% of the price of the perpetual license for each year of maintenance service, although this price may vary with regard to large enterprise sales. We measure the aggregate perpetual license maintenance renewal rate for our customers in a 12-month period of time, based on a dollar renewal rate for contracts expiring during that time period. Our maintenance renewal rate is measured three months after the 12-month period ends to account for late renewals. Our aggregate maintenance renewal rate for the 12-month period ended June 30, 2013 was over 90%.

When a term or subscription license is purchased, maintenance service is typically bundled with the license for the term of the license period. Customers with maintenance agreements are entitled to receive support and unspecified upgrades and enhancements if and when they become available during the maintenance term. We recognize the revenues associated with maintenance agreements ratably, on a straight-line basis, over the associated maintenance term. In arrangements involving a term or subscription license, we recognize both the license and maintenance revenues ratably, on a straight-line basis, over the contract term. Term and subscription license revenues are included in License revenues on our consolidated statement of operations. We also have a professional services organization focused on both training and assisting our customers to fully leverage the use of our products. We recognize the revenues associated with these professional services on a time and materials basis as we deliver the services or provide the training.

We expect maintenance and services revenues to become a larger percentage of our total revenues as our customer base grows.

Cost of Revenues

Cost of license revenues. Cost of license revenues primarily consists of referral fees paid to third parties. For Tableau Online, cost of license revenues is calculated through an allocation of shared costs, which was immaterial for the period ended September 30, 2013.

Cost of maintenance and services revenues. Cost of maintenance and services revenues includes salaries, benefits and stock-based compensation expense associated with our technical support and services organization, as well as allocated overhead. Allocated overhead includes overhead costs for depreciation of equipment, facilities (consisting of leasehold improvements and rent) and technical operations (including costs for compensation of our personnel and costs associated with our infrastructure). We recognize expenses related to our technical support and services organization as they are incurred. We expect the cost of maintenance and services revenues to increase as a percentage of maintenance and services revenues due to increased investment in our technical support and services organization to support our expanding customer base.

We expect that the cost of revenues will increase as a percentage of total revenues as we expand our technical support capabilities worldwide and seek to expand our product and service offerings.

Gross Profit and Gross Margin

Gross profit is total revenues less total cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. We expect that our gross margin may fluctuate from period to period as a result of changes in product and services mix, direct and indirect sales mix and the introduction of new products by us or our competitors.

Operating Expenses

Our operating expenses are classified into three categories: sales and marketing, research and development, and general and administrative. For each category, the largest component is personnel costs, which include salaries, employee benefit costs, bonuses, commissions, as applicable, and stock-based compensation expense.

Sales and marketing. Sales and marketing expenses primarily consist of personnel-related costs attributable to our sales and marketing personnel, commissions earned by our sales personnel, marketing, travel, and facility related costs and allocated overhead. We expect sales and marketing expenses to continue to significantly increase, in absolute dollars, for the remainder of 2013 compared to 2012 primarily due to our planned growth in our sales and marketing organization, both domestically and internationally. We expect sales and marketing expenses to be our largest category of operating expenses as we continue to expand our business.

Research and development. Research and development expenses primarily consist of personnel-related costs attributable to our research and development personnel and allocated overhead. We have devoted our product development efforts primarily to develop new products, incorporate additional features, improve functionality and adapt to new technologies or changes to existing technologies. We expect that our research and development expenses will continue to increase, in absolute dollars, in 2013 compared to 2012 as we increase our research and development headcount to further strengthen our software and invest in the development of our products.

General and administrative. General and administrative expenses primarily consist of personnel-related costs attributable to our executive, finance, legal, human resources and administrative personnel, legal, accounting and other professional services fees, other corporate expenses and allocated overhead. We have recently incurred additional expenses due to expanding our operations and in connection with our initial public offering, or IPO, and will continue to incur additional expenses associated with being a publicly traded company, including higher legal, corporate insurance and accounting expenses, and the additional costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act and other regulations. We also expect that general and administrative expenses will continue to increase, in absolute dollars, for the remainder of 2013 compared to 2012 as we further expand our operations, particularly internationally.

Other Income (Expense), Net

Other income (expense), net consists primarily of gains and losses on foreign currency transactions and interest income on our cash and cash equivalents balances.

Income Tax Expense (Benefit)

Our income taxes are based on the amount of our taxable income and enacted federal, state and foreign tax rates, as adjusted for allowable credits and deductions. Our provision for income taxes consists of federal, state and foreign taxes.

We generally conduct our international operations through wholly-owned subsidiaries, branches and representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our corporate structure and intercompany arrangements align with the international expansion of our business activities. The application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions. If such a disagreement were to occur, and our positions were not sustained, we could be required to pay additional taxes, interest and penalties, resulting in higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

Our income tax provision may be significantly affected by changes to our estimates for taxes in jurisdictions in which we operate and other estimates utilized in determining our global effective tax rate. Actual results may also differ from our estimates based on changes in tax laws and economic conditions. Such changes could have a substantial impact on the income tax provision and effective income tax rate.

In addition, we are subject to the continuous examinations of our income tax returns by different tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our prospectus, filed with the SEC on May 20, 2013 pursuant to Rule 424(b) under the Securities Act.

Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists, or ASU 2013-11. ASU 2013-11 requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law. ASU 2013-11 is effective for us in our first quarter of 2014 with earlier adoption permitted. ASU 2013-11 should be applied prospectively with retroactive application permitted. We are currently evaluating the impact of our pending adoption of ASU 2013-11 on our consolidated financial statements.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenues 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Consolidated Statements of Operations Data:				
Revenues				
License	$41,951	$22,112	$101,895	$59,807
Maintenance and services	19,128	10,014	49,086	26,120
Total revenues	61,079	32,126	150,981	85,927
Cost of revenues				
License	237	21	523	170
Maintenance and services	4,341	2,788	11,951	6,809
Total cost of revenues (1)	4,578	2,809	12,474	6,979
Gross profit	56,501	29,317	138,507	78,948
Operating expenses				
Sales and marketing (1)	32,189	15,565	83,426	39,125
Research and development (1)	15,438	8,488	42,514	22,706
General and administrative (1)	6,345	4,278	18,064	10,533
Total operating expenses	53,972	28,331	144,004	72,364
Operating income (loss)	2,529	986	(5,497)	6,584
Other income (expense), net	(177)	(22)	(350)	(49)
Income (loss) before income tax expense (benefit)	2,352	964	(5,847)	6,535
Income tax expense (benefit)	(89)	597	(1,678)	4,052
Net income (loss)	$2,441	$367	$(4,169)	$2,483

(1) Stock based compensation expense included in the consolidated statement of operations above was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Cost of revenues	$113	$28	$291	$66
Sales and marketing	1,442			