AMARU INC
Form 10-K
April 15, 2011

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

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FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

|_| 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: 0-32695

AMARU, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| NEVADA | 88-0490089 |
|---|---|
| (STATE OR 0THER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NO.) |

62 CECIL STREET, #06-00 TPI BUILDING, SINGAPORE 049710
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE : (65) 6332 9287

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | Name of each exchange on which registered |
|---|---|
| NONE | NONE |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Title of class

COMMON STOCK
$0.001 PAR VALUE

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes |_| No |X|

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes |_| No |X|

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 |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |_|
Smaller reporting company |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes |_| No |X|

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. As of March 1, 2011, the aggregate market value of the voting common equity held by non-affiliates of the registrant computed by reference to the closing sale price of the common stock as of March 1, 2011 at $0.02 per share was $3,379,306.94.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. The number of shares outstanding of registrant's common stock, $0.001 par value per share, was 192,790,043 as of March 1, 2011.

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

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PART I

ITEM 1: DESCRIPTION OF BUSINESS

BACKGROUND

Amaru, Inc., a Nevada corporation ("we" or the "Company") is in the business of broadband entertainment-on-demand, streaming via computers, television sets, PDAs (Personal Digital Assistant) and the provision of broadband services. Our business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication, broadband consulting services, broadband hosting and streaming services and E-commerce.

The Company is also in the business of digit gaming (lottery). The Company has an 18 year license to conduct nation wide lottery in Cambodia. The Company through its subsidiary, M2B Commerce Limited, signed an agreement with Allsports International Ltd, a British Virgin Islands company to operate and conduct digit games in Cambodia and to manage the digit games activities in Cambodia. On March 25, 2009, the Company was notified that the digit game lottery operations have been suspended by the government of Cambodia as part of the suspension of all lotteries in Cambodia.

The Company believes at this time that the suspension of the digit games is permanent, as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance. See Note 14.

The key business focus of the Company is to establish itself as the leading provider and creator of a new generation of Entertainment-on-Demand and E-Commerce Channels on Broadband and 3G (Third Generation) devices.

The Company delivers both wire and wireless solutions, streaming via computers, TV sets, PDAs 3G hand phones.

At the same time the Company launches e-commerce channels (portals) that provide on-line shopping and pay per view services but with a difference, merging two leisure activities of shopping and entertainment. The entertainment channels are designed to drive and promote the shopping portals, and vice versa.

The Company's business model in the area of broadband entertainment includes e-services, which would provide the Company with multiple streams of revenue. Such revenues would be derived from advertising and branding (channel and program sponsorship); on-line subscriptions; online games micro-payments; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; on-line shopping turnkey solutions; broadband hosting and streaming services; E-commerce commissions and on-line dealerships.

The Company was incorporated under the laws of the state of Nevada in September, 1999. The Company's corporate offices are located at 62 Cecil Street, #06-00 TPI Building, Singapore 049710; telephone (65) 63329287. The corporate website is located at www.amaruinc.com. Information included on the website is not a part of this annual report.

As of February 25, 2004 (the "Closing Date"), Amaru acquired M2B World Pte. Ltd. (M2B World), a Singapore corporation, in exchange for 19,500,000 newly issued "restricted" shares of common voting stock of

the Company and 143,000 "restricted" Series A Convertible Preferred Stock shares to the M2B World shareholders on a pro rata basis for the purpose of effecting a tax-free reorganization pursuant to sections 351, 354 and 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended pursuant to the Agreement and Plan of Reorganization by and between the Company, M2B World and M2B World shareholders. As a condition of the closing of the share exchange transaction, certain shareholders of the Company cancelled a total of 1,457,500 shares of common stock. Each one (1) ordinary share of M2B World has been exchanged for 1.3636363 shares of the Company's Common Stock and 100 shares of the Company's Series A Convertible Preferred Stock. Each share of the Company's Series A Convertible Preferred Stock had a conversion rate of 38.461538 shares of the Company's common stock. Following the Closing Date, there were 20,000,000 shares of the Company's Common Stock outstanding and 143,000 shares of the Company's Series A Convertible Preferred Stock outstanding. Immediately prior to the Closing, there were 500,000 shares issued and outstanding. All of the Series A Convertible Preferred Stock was subsequently converted into shares of common stock of the Company.



The restructuring and re-capitalization has been treated as a reverse acquisition with M2B World becoming the accounting acquirer. The historical financial statements prior to the closing of the transaction are those of M2B World.

On May 17, 2010, the management of the Company concluded upon accepting the recommendation of its independent registered public accounting firm, Mendoza, Berger& Company, LLC, that the Company's audited financial statements for the fiscal year ended December 31, 2009 should no longer be relied upon. The Company amended its financial statements to provide that the asset of film library is fully impaired at December 31, 2009. Due to the material nature of the impairment of the Company's film library asset at and for the year ending December 31, 2009 and the fact that the film library failed to produce any of the budgeted revenue for the fiscal year, management has concluded that a full impairment of the film library was warranted and should have been recorded at December 31, 2009. The film library was impaired for the year ended 2009 in accordance with the requirements of impairment of long lived assets. The management of the Company believes that the film library as a long term asset still has an intrinsic value, to which it cannot presently quantify.

BUSINESS OVERVIEW

The Company, through its subsidiaries under the M2B and WOWtv brand names, is in the Broadband Media Entertainment business, and a provider of interactive Entertainment-on-demand and e-commerce streaming over Broadband channels, Internet portals and 3G (Third Generation) Devices globally.

The Company has launched multiple Broadband TV websites with entertainment and online shopping content, with multiple content channels designed to cater to various consumer segments and lifestyles. Its content covers diverse genres such as movies, dramas, comedies, documentaries, music, fashion, lifestyle and more. The Company markets its products globally through its "M2B" and "WOWtv" brand names. Through these brands, the Company offers access to an expansive range

of content libraries for aggregation, distribution and syndication on Broadband and other media, including rights for merchandising, product branding, promotion and publicity.

The Company was also in the business of digit gaming (lottery). The Company has an 18 year license to conduct nationwide lottery in Cambodia. The Company through its subsidiary, M2B Commerce Limited, signed an agreement with Allsports Limited, a British Virgin Islands company to operate and conduct digit games in Cambodia and to manage the digit games in Cambodia. On March 25, 2009, the Company was notified that the digit games were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. Although the Company is still a holder of the license, it cannot use it for the gaming business until the suspension of the digit games is lifted. At this time, the suspension of the digit games is expected to be permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

Globally, Amaru, Inc. is expanding through several of its subsidiaries, including:

| | | | |
|---|---|---|---|
| 1. | M2B World, Inc. | – | focuses on the US market and is bas<br>Hollywood, California |
| 2. | M2B World Asia Pacific Pte. Ltd. | – | oversees the Asia Pacific business<br>the Asian markets through this offi<br>representative office in Chengdu, C |
| 3. | M2B Australia Pty. Ltd. | – | oversees Oceania markets |
| 4. | M2B Commerce Limited | – | focuses on digit games in Cambodia |
| 5. | M2B World Travel Singapore Pte. Ltd. | – | offers e-travel services |
| 6. | Amaru Holdings Limited | – | focuses on content syndication and<br>in areas other than Asia Pacific re |
| 7. | M2B World Holdings Limited | – | focuses on content syndication and<br>in Asia Pacific region |
| 8. | M2B World Pte. Ltd. | – | provides management services to fel<br>subsidiaries of the Company |
| 9. | Tremax International Limited | – | operates as an investment holding c |
| 10. | M2B World Travel Limited | – | oversees online travel and related |



The Company offers consumers personalized entertainment through its wide range of broadband streaming channels available via www.amaruinc.com and www.wowtv.com.

BUSINESS STRATEGY

Our business strategy is to become a premier diversified media, e-commerce and e-lifestyle company. We adopt the latest broadband, e-commerce and communications technology and leverage on our international premium content and programming expertise. This is how we deliver online entertainment, lifestyle products and services to our customers.

Our goal is to constantly identify fresh market opportunities and to stay ahead of changes in the broadband media and related e-commerce industry. We believe that we can accomplish this by continuing to satisfy customers' needs for a convenient, comprehensive and personalized source of broadband video content, services and information with pleasant user experiences. Through our business plan implementation, we aim to become a leading Broadband Media Entertainment business, providing interactive Entertainment-on-demand and e-commerce streaming over Broadband channels, Internet portals, and 3G devices globally.

We intend to continue leveraging on our competitive strengths to attain a leadership position in the industry.

COMPETITIVE STRENGTHS

The Company's competitive strengths are:

- CONTENT LIBRARY

  The Company owns a library of content that covers a wide range of genres, of which the majority includes worldwide rights in perpetuity on the broadband. This enables the Company to deliver a rich and diverse variety of on-demand streaming video content that suit the lifestyle and taste of different consumer segments, across different countries - thereby massing a global base of viewers to attract advertisers to its delivery platforms on the PC, 3G, 4G devices and TV. The Company has built relationships with content distributors in the U.S. and Asia that enables it to continually source for content that meet the changing demands and taste of the customers and advertisers. Upon the Company's most recently completed impairment evaluation (fourth quarter of fiscal year 2009), however, the film library was determined to be impaired during the year ended December 31, 2009. In conducting the analysis, the Company used a discounted cash flow approach in estimating fair value as market values could not be readily determined given the unique nature of the respective assets.

- GLOBAL VIDEO STREAMING NETWORK

  The Company has also developed and implemented a global video streaming network that enables it to deliver high quality on-demand video streaming programs from its library of content rights to a worldwide audience of broadband users. This global video streaming network is completely integrated with firewalls, loading balancing protocols, bandwidth and consumer monitoring systems and payment gateways to enable worldwide billing. In addition, the Company has its own digital post-production and design capabilities to fully manage content rights protection, user experience and specialized programming for all its consumer-facing delivery platforms. This end-to-end broadband streaming infrastructure enables the Company to customize and

diversify its products and services, incorporating video-on-demand and e-commerce services.

- MULTIPLE REVENUE STRENGTHS

  The Company's diversified delivery platforms enable it to capitalize and generate multiple revenue streams by targeting different consumer segments over broadband, across different geographic markets. The multiple revenue streams comprise of advertising, subscriptions, sponsorships, online shopping and games, as well as licensing and content syndication and turn-key broadband consulting solutions. The Company's goal is not to be excessively dependent on any one single revenue source. Its library of content rights combined with its global video streaming network supports the Company's future growth strategy that focuses on multiple growth areas and territories. The Company can thereby cost-effectively tailor its broadband websites and services to suit different cultures, consumer behavior and clients needs in different geographical locations. The Company is also able to localize its products and services to sustain loyalty of its viewers and consumers.

3

- KEY ALLIANCES

  The Company has entered into strategic alliances and / or agreements with key providers to support the marketing and distribution of its products and services in different territories. Among its key providers are Baidu (China), Zingmobile Pte Ltd (Singapore), MOL Media Sdn Bhd (Malaysia), MOL AccessPortal Berhad (Malaysia), Webvisions Pte Ltd (Singapore), Zentek Technology (Japan), Auto TV Corporation Pte Ltd (Singapore), I-Concerts Asia Pacific (Singapore), Panasonic Asia Pacific Pte Ltd (Singapore), Starhub Mobile Pte Ltd (Singapore) and two regional advertising agencies, Admax Network Holdings Limited (based in Singapore) and Innity Sdn Bhd (based in Malaysia). The Company will continue to forge strategic partnership opportunities including the area of web-enabled mobile devices and extend its accessibility to customers of its broadband websites and services.

GROWTH STRATEGIES

The Company's growth strategies consist of:

- Continuing to build its library of content rights on the broadband to provide sustained high quality on-demand video-based entertainment and e-commerce that will maintain and grow its worldwide base of viewers.

- Penetrating new markets to deliver M2B and WOWtv branded content to any screen including PC, 3G and TV, as well as wireless mobile devices like PDAs and to establish new delivery channels to meet the changing preferences of viewers and consumers, worldwide.

- Capitalize on its growing worldwide viewer and consumer base by aggressively signing up subscribers, as well as advertisers onto its on-demand interactive broadband delivery channels for entertainment, online games and e-commerce.

Consumers access the Company's entertainment sites through its main

website, www.amaruinc.com or directly go to the entertainment sites at www.wowtv.com.

NEW PRODUCTS

In August 2007, M2B World Asia Pacific Pte Ltd, a subsidiary company of Amaru which oversees the Asia Pacific markets, launched a new broadband entertainment web TV service, called WOWtv. The Company intends that WOWtv serve as its new brand for its broadband entertainment services. WOWtv had therefore combined and incorporated all the Company's previous entertainment websites into one leading site. WOWtv streams multiple video-on-demand channels of Hollywood and Asian entertainment.

In August 2008, a new enhanced version of WOWtv called WOWtv NEW was launched to promote further this premier personalized broadband entertainment channel.

The new enhanced site, WOWtv NEW is expected to customize user experience through expanded features. These features include:

- High Definition streaming
- New Community and User Generated Content
- Live TV broadcast
- Social Networking

All these features compliment the existing extensive VOD service available on WOWtv.

The service was also designed into two main tiers, namely :

- Free Tier - Web TV channels are provided free to viewers without the need to register and are advertising supported.
- Subscription Tier - Web TV channels are provided to registered subscribers for a pay-per-view fee.



The initiatives were taken to retain and expand viewership. The plan for an extended viewership base through the expanded features is expected to add value to the WOWtv service and potentially lead to new revenue sources and increase advertising revenue in the years ahead.

The WOWtv service had, as of February 2009, been further developed and relaunched on a global basis in addition to the site in Singapore. In April 2009, the WOWtv service was extended to cover China with the launching of its Chinese site. The WOWtv global service is available on www.wowtv.com, the Singapore service on sg.wowtv.com. and the China service on cn.wowtv.com.

CONSUMER MARKETING

The Company's broadband entertainment websites attract viewers from all over the world. The Company's strategy of converting visitors into customers lies in a combination of incentives, including seasonal and purchase-related promotions that take advantage of the Company's

customer database and broadband websites.

The Company plans to negotiate special rates and benefits to obtain access to a superior online inventory for the customers. The increasing scale of the business will enable the Company to negotiate on more favorable terms. Through research with visitors and customers, the Company is developing new programs and features (including personalization and loyalty incentives) that would turn visitors into customers and maintain loyalty.

The Company also employs a variety of online and traditional media programs and promotional activities such as:

(a) Advertising

The Company invests in both online and traditional advertising to drive traffic to our broadband websites. To generate traffic to M2B and WOWtv's broadband websites in a cost efficient manner, the Company purchased targeted keywords and textlinks in reasonably high volume. The Company also advertises in traditional print and broadcast media to increase the awareness of its service, product enhancements and retail offerings.

(b) Public Relations

The core of our public relations effort is media relations and industry analyst relations. We maintain relations with journalists and industry analysts to help secure unbiased, third-party endorsements for the Company. We pursue coverage by online publications, search engines and directories.

(c) Co-marketing, Promotions and Loyalty Programs

We intend to continue to establish significant co-marketing relationships to promote our service and to sponsor contests that offer M2B and WOWtv related prizes. These programs typically involve participation with our partners. We intend to enter into additional co-marketing relationships in support of our marketing strategy. From time to time, we offer various incentives and awards to our existing customer base. These incentives are designed to increase customer loyalty and awareness of the M2B and WOWtv brands.

(d) Direct Marketing

The Company maintains a database which includes customers profiles and preferences and other key customer attributes. This data enables us to track the effectiveness of promotions and incentives and to understand seasonal and other trends in order to create and quickly implement marketing programs targeted to specific customer segments. In addition, we regularly communicate with our customers through targeted e-mail.

The Company, while growing the business, also aims to maintain profitability. While it executes its growth strategies, it also controls costs. It intends to continue to implement programs to control the cost of revenues and reduce operating costs through technology and productivity management, economies of scale and financial controls. This strategy

should enable us to provide our products to customers on a cost competitive basis.



BUSINESS SEGMENTS

Our principal operations are carried out through the following three segments of our business:

1. Entertainment Services - Video on-Demand services for entertainment, providing the Company with advertising, subscriptions, online games and e-commerce revenues

2. Digit Games which is inactive at present - see Business Description - Background

ENTERTAINMENT SERVICES

The Company provides online entertainment on-demand on Broadband channels, Internet portals and 3G devices across the globe, for specific and identified viewer lifestyles, demographics and interests. Entertainment and web visit experience is maintained throughout from the initial viewing experience to on-line purchases and payment checkout experience.

The Company uses Broadband technology to provide its services. Broadband technology is defined as high speed, high-bandwidth, two-way data, voice and video communications, delivered at high transmission rates.

SERVICES: Broadband technology allows us to deliver the following services::

- Video-on-demand (VOD) services that enable individuals to select videos from a Central Server, on-demand 24 hours a day, 7 days a week, for viewing on:

- Television screens (Set top Box Technology), including connected TV

- PCs (Digital Subscriber Line (DSL) Technology)and mobile internet devices

- Personal Digital Assistants(PDA), 3G and 4G hand phones (Wireless Technology)

- E-Commerce or online purchases - linked interactively to the VOD platforms on broadband. Consumers choose to buy products online as they watch the videos.

The Company applies broadband technologies to facilitate its growth in the broadband sector. Its main competitive advantage is derived from its ownership of rights for various territories on broadband for its contents i.e. movies, televisions, dramas and programs on lifestyles, business and glamour.

The Company has built and installed its broadband streaming system complete with firewalls, load balancing, bandwidth and consumer

monitoring systems, which include video streaming, video storage and web servers in Singapore. The Company has also developed its streaming applications to stream into television sets, via a set top box.

The Company has developed a capability to stream wireless broadband and have its own digitized entertainment sites for wireless broadband applications.

The Company offers consumers personalized entertainment through its wide range of broadband streaming channels available at www.amaruinc.com, www.wowtv.com, sg.wowtv.com and cn.wowtv.com.



PRODUCTS: We offer the following products on the VOD platform:

- Entertainment - Consumers access movies, music, glamour and fashion, lifestyle (hobbies, cooking, and personalities), documentaries, sports, health and fitness and others. They can choose from a large number of different channels depending on their interests or lifestyle preferences.

- E-Commerce - Consumers can purchase products online, view videos on a pay-per-view basis and make payments online.

With this strategy, the Company aims to generate diversified sources of revenue from:

1. Advertising i.e. program and channel sponsorship

2. Online subscriptions

3. Channel/portal development i.e. digital programming services

4. Content aggregation and syndication

5. Broadband consulting services and online shopping turnkey solutions

6. E-commerce services

The Company is constantly in the process of redesigning and adding improvements to its Broadband websites. The current Broadband websites and products, which may change from time to time are highlighted below.

WOWTV - WEB TV SERVICE, CONNECTED TV AND WOWTV EMBEDDED TV

WOWtv, a broadband entertainment web TV service, has embarked on launching its site across the Asia Pacific, streaming multiple channels of Hollywood and Asian entertainment via video on-demand and providing E-commerce services. Its video on-demand content covers diverse genres such as movies, television dramas, variety shows, documentaries, fashion, lifestyle, sports, edutainment and more. WOWtv can be viewed on www.wowtv.com.

Beginning with Singapore, WOWtv is set to expand globally with its new global site and across the Asia Pacific. Having launched its global and China sites in 2009, it intends to expand its growing presence to specific territories, namely India, Indonesia and Malaysia within the

next 12 months. The Company has plans to incorporate a video e-travel portal and possibly e-travel services within its WOWtv site. No assurance can be given that such plans will materialize as planned.

LEVERAGING ON THE STRENGTHS OF WOWTV

WOWtv is an innovative platform that we believe will establish a first mover advantage to become the first Pan-Asian broadband entertainment services provider. Its strengths and competitive advantages include:

Content Aggregation, Distribution and Syndication - with the technology and expertise to stream with high clarity and also manage operations and costs well.

Premium Content Portfolio - with a vast library of worldwide broadband rights of film and content, copyright ownership and exclusivity on the majority of broadband titles.

Strong relationships in Asia and Hollywood - with good connections to enable it to make further in-roads to content acquisition.

Broadband Distribution Deals - with secured broadband distribution deals with major media companies.



MARKETING STRATEGY OF WOWTV

WOWtv's marketing strategy is to offer viewers a plethora of video on-demand entertainment over two segments on its website, where consumers will get a chance to sample its products and services in different tiers - FREE and SUBSCRIPTION (PAY-PER-VIEW).

DIGIT GAMES

The Company has an 18-year license to conduct nation wide lottery in Cambodia. The Company also signed an agreement with Allsports Limited, a British Virgin Islands company, to operate, administer, and manage the lottery digit games activities in Cambodia. On March 25, 2009, the Company was notified that the digit games were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. The suspension of the digit games is expected to be permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

ONGOING DEVELOPMENTS

Moving on from 2010's initiatives, the Company's target markets are all Telcos, TV Channels, and ISP's :

A. Selling Contents to local and regional Telcos. The Company has contracts with Singtel, Starhub, M1 in Singapore. It is currently in discussion with regional Telcos in Malaysia, Indonesia for Content cooperation.

B. Contents sales to TV Stations - Singapore Starhub TV Channel and Malaysia, Cambodia and Myanmar. The Company is working on content sales in the above countries, however, no sales have been made so far.

C. Bulk Sales of Contents to ISP's in S.E. Asia. The Company is working on the above referenced bulk sales in S.E. Asia, however, no sales materialized so far.

Specific Country Focus

A. China

- The Company is currently the only foreign listed Content Company for China Mobile (with 600 million subscribers). The Content censorship and approval process will take to the middle of 2011 in order to start providing contents to China.

B. Vietnam

- The Company has completed developing the IPTV site for VIET TV, and will be licensing CMS to VDC online.

C. Myanmar

The Company has worked on the ground to sell bulk Contents to Myanmar TV Channels.

D. India/Sri Lanka/Maldives

As the Company sees the huge market in India, it is exploring integrating the Company's online contents for the Indian market.

The Company is planning to enter into the Indian, Sri Lankan and Maldives Media market in the 2nd Quarter of 2011. Acting through its JV company Mediamedes, the Company will attempt to bring in Home Cable International providing Indian contents to India.



Other Media Co-operation for our Online Platform

The Company has kept its Contents relevant and at zero-cost, by securing choice Contents like i-Concerts (Geneva), Auto TV(Asia), and Mr. Paparazzi (UK) without any minimum guarantee. Following 2010, the Company has also explored content collaboration with Singapore Mediacorp and China TV stations. The online Content business.

The content business is evolving very fast, with vast contents flooding the market. Therefore to grow organically is not the Company's growth plans. The Company has identified key market participants and plans to move forward to secure the subscription base or the viewership. In that regard, the Company has worked on the following:

1. A formal partnership arrangement to access to m1905's two million hits per month movie channel.

2. Latch onto CCTV6's distribution channels for all the provinces in China, both for regular TV as well as online.

3. The Company is developing with Kingsoft/iciba, a popular China English Language Learning Site, which provides access to 60 million users per

day.

4. The Company is looking for cooperation with e-commerce sites in China, to take advantage of the four-fold increase in e-commerce sites as targeted by the Chinese Central Government.

Other business developments.

* The Company signed a Contract with Panasonic the 1st Quarter 2011 to incorporate WOWtv onto its VIERA Cast TV model. The sales forecast for this model which is to be sold in 9 countries, is expected to be 750,000 units. Panasonic has asked the Company for an agreement to extend to both Hong Kong and Taiwan, and also to negotiate a new Panasonic contract for Europe, which is under another management team.

* On the technology front, the Company will be developing a Social Networking Application with Beijing University of Post and Telecommunications for the mobile phone. It is currently being developed on Nokia's Symbian platform. The Company will co-develop the application for both Apple and Android phones.

* Connected TV

The Company is edging into technology partnerships so as to make WOWtv applicable across all media platforms. It is in discussion with Shanghai Media Group to utilize and incorporate WOWtv platform with their technology.

* Advertisement Bulk Sales

The Company is pursuing bulk sales of Contents through Dentsu Beijing, and OMD Shanghai.

There can be no assurance that the above plans will materialize as planned and stated.



MARKETS

The business operations and financial results of the Company are directly affected by the markets that the Company operates in.

o RISING DISPOSABLE INCOME AND USAGE OF PC AND BROADBAND TECHNOLOGY

In many other parts of the world, especially emerging markets with growing use of PCs, Internet with fast growing number of broadband subscribers and rising disposable incomes, these markets offer significant growth potential.

o THE ADVENT AND INCREASING ADOPTION OF BROADBAND TECHNOLOGY

The advent of broadband technology and ever-increasing bandwidth has pushed for the next generation of online on-demand broadband entertainment as one of the desired applications that will meet the needs of increasingly demanding and bandwidth hungry consumers and enterprise. Such technology can be further enhanced by the coupling of value added services, namely Internet telephony communication services

and E- Commerce, together with the Broadband entertainment sites.

The market consists of both the consumers and the enterprise. The demand from consumers is rich media content, on demand, highly interactive and fast. On the other hand the enterprise must reach out to such demands and the next generation through the new medium, or be left behind. To meet this demand, the Company has established relationships with major production houses, and access to major distributors worldwide. This is expected to put the Company in a position to acquire high quality, original video content. Such strategic positioning has resulted in the Company acquiring extensive content on broadband for multiple countries and for dedicated time periods.

The Company intends to continue to maximize on its key strength, the packaging of our content. The Company believes that it will shape the delivery of its content in the most cost effective manner and innovative way.

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- THE BOOMING ONLINE ADVERTISING MARKET

According to the Euromonitor International, an industry research provider, the market for advertising is forecasted to grow by 119.1% from 2004 to 2009, to reach a value of US$609.3 billion.

The online video is growing dramatically, with increased broadband penetration creating a larger audience, leading more advertisers to consider adding video to their online efforts. Jupiter Research estimates that the online video advertising industry is worth $1.3 billion.

- THE GROWTH OF THE VIDEO ON DEMAND MARKET

According to Jupiter Research, in 2007 the Video-on-Demand (VOD) market is expected to be worth $1.4 billion while the Subscription VOD market is worth $800 million.

According to ZDNet Research, there were approximately 7.5 million worldwide cable-based VOD users at the end of 2004. VOD user growth is projected to remain strong for the next several years. Total number of worldwide users is 13 million at the end of 2005 and is forecasted to ultimately reach 34 million in 2009.

A study released by Adams Media Research in 2007 forecasts that sales of video downloads will total $427 million in 2007. $1.2 billion in 2008, $2 billion in 2009, $3.1 billion in 2010, then hit $4.1 billion in 2011.

The same study also predicts that advertiser spending on internet video streams to PCs and TVs will approach $1.7 billion in 2011.

COMPETITION

The Company faces intense competition in every aspect of our business, and particularly in the acquisition of content.

In the entertainment services business, we compete with free-to-air

channels, cable operators as well as other broadband entertainment providers for distribution rights of programs in terms of price, quality and variety.

Traditional TV networks and cable TV operators today provide alternate sources of entertainment in a broadcast mode. In future, it is expected that these networks may also extend their reach to the video-on-demand broadband service. This may put them in direct competition with us, although their entry costs will likely be higher and both the technical and manpower capabilities existing in these traditional companies will make it somewhat difficult for them to transit into new broadband media.

In our multi player online gaming business, we face competition from the various gaming offerings on the market as well as the various gaming portals and platforms. In the subscription based multi player online gaming business, the Company faces vigorous competition from the numerous games that are distributed free over the Internet. More generically, it also competes with console based games made for products like Playstation and X-box.

The Company also competes within the industry for advertising revenue and viewers. More generically, the Company faces competition from other leisure entertainment activities from Video CDs (especially in Asia), DVDs to cinemas, home theatres and emerging mobile multi media kiosks and display panels.

The Company believes that it is competing favorably on the factors described above. However, the industry is evolving rapidly and is becoming increasingly competitive. Larger, more established companies than us are increasingly focusing on the video content, travel, and e-commerce businesses that directly compete with us.



INTELLECTUAL PROPERTY

The Company's intellectual property consists of trademarks, patents, copyrights, and other technology and trade secrets. In addition to technology that we develop internally, we license software or other technology from third parties. We also grant licenses to some of our intellectual property, such as trademarks, patents or websites technology, to our vendors and strategic partners.

GOVERNMENT REGULATION

The Company must comply with laws and regulations relating to our sales and marketing activities, including those prohibiting unfair and deceptive advertising or practices and those requiring us to register as a service provider in the spheres of business that we operate in, and with disclosure requirements.

Data collection, protection, security and privacy issues are a growing concern in the U.S., and in many countries around the world. Government regulation is evolving in these areas and could limit or restrict the Company's ability to market its products and services to consumers, increase the Company's costs of operation and lead to a decrease in demand for our products and services. US Federal, state and local governmental organizations, as well as foreign governments and regulatory agencies, are also considering legislative and regulatory

proposals that directly govern Internet commerce, and will likely consider additional proposals in the future.

We do not know how courts will interpret laws governing Internet commerce or the extent to which they will apply existing laws regulating issues such as property ownership, sales and other taxes, libel and personal privacy to the Internet. The growth and development of the market for online commerce has prompted calls for more stringent consumer protection laws that may impose additional burdens on companies that conduct business online.

COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

The Company has incurred no, and does not expect to incur, material expenditures or obligations related to environmental compliance issues.

EMPLOYEES

The Company had 18 employees as of December 31, 2010, of which 16 are full time and 2 part-time employees. All of the 18 employees are based in Singapore.



ITEM 1A: RISK FACTORS

An investment in the Company's common stock involves a high degree of risk. One should carefully consider the following risk factors in evaluating an investment in the Company's common stock. If any of the following risks actually occurs, the Company's business, financial condition, results of operations or cash flow could be materially and adversely affected. In such case, the trading price of the Company's common stock could decline, and one could lose all or part of one's investment. One should also refer to the other information set forth in this report, including the Company's consolidated financial statements and the related notes.

THE COMPANY CONTINUES TO USE SIGNIFICANT AMOUNTS OF CASH FOR ITS BUSINESS OPERATIONS, WHICH COULD RESULT IN US HAVING INSUFFICIENT CASH TO FUND THE COMPANY'S OPERATIONS AND EXPENSES UNDER OUR CURRENT BUSINESS PLAN. THE COMPANY IS ALSO HOLDING A CONSIDERABLE AMOUNT OF QUOTED EQUITY SECURITIES THAT ARE HELD FOR TRADING.

The Company's liquidity and capital resources remain limited. There can be no assurance that the Company's liquidity or capital resource position would allow us to continue to pursue its current business strategy. The Company's quoted equity securities held as assets are dependent on the market value. Any fluctuations or downturn in the securities market could adversely affect the value of these equity securities held. As a result, without achieving growth in its business along the lines it has projected, it would have to alter its business plan or further augment its cash flow position through cost reduction measures, sales of assets, additional financings or a combination of these actions. One or more of these actions would likely substantially diminish the value of its common stock.

THE MARKET MAY NOT BROADLY ACCEPT THE COMPANY'S BROADBAND WEBSITES AND SERVICES, WHICH WOULD PREVENT THE COMPANY FROM OPERATING PROFITABLY.

The Company must be able to achieve broad market acceptance for its Broadband websites and services, at a price that provides an acceptable rate of return relative to the Company-wide costs in order to operate profitably. There is no

assurance that the market will develop sufficiently to enable the Company to operate its Broadband business profitably. Furthermore, there is no assurance that any of the Company's services will become generally accepted, nor is there any assurance that enough paying users and advertisers will ultimately be obtained to enable us to operate these business profitably.

BROADBAND USERS MAY FAIL TO ADOPT THE COMPANY'S BROADBAND SERVICES.

The Company's Broadband services are targeted to the growing market of Broadband users worldwide to deliver content and E-commerce in an efficient, economical manner over the Broadband networks. The challenge is to make the Company's business attractive to consumers, and ultimately, profitable. To do so has required, and will require, the Company to invest significant amounts of cash and other resources. There is no assurance that enough paying users and advertisers will ultimately be obtained to enable the Company to operate the business profitably.

FAILURE TO SIGNIFICANTLY INCREASE THE COMPANY'S USERS AND ADVERTISERS MAY RESULT IN FAILURE TO ACHIEVE CRITICAL MASS AND REVENUE TO BUILD A SUCCESSFUL BUSINESS.

The Company incurs significant up-front costs in connection with the acquisition of content, and bandwidth and network charges. The plan is to obtain recurring revenues in the form of subscription and advertising fees to use the Broadband services, either paid by the users or advertisers.

There is no assurance as to whether the Company will be able to maintain, or whether and how quickly the Company will be able to increase its user base, or whether the Company will be able to generate recurring subscription and advertising fees to such a level that would enable this line of business to continue to operate profitably. If the Company is not successful in these endeavors, the Company could be required to revise its business model, exit or reduce the scale of the business, or raise additional capital.

COMPETITION IN THE BROADBAND BUSINESS IS EXPECTED TO INCREASE, WHICH COULD CAUSE THE BUSINESS TO FAIL.

The Company's Broadband services are targeted to the end user market. As the Broadband penetration rates increase globally, an increasing number of well-funded competitors have entered the market. Companies that compete with the Company's business include telecommunications, cable, content management and network delivery companies.



The Company may face increased competition as these competitors partner with others or develop new Broadband websites and service offerings to expand the functionality that they can offer to their customers. These competitors may, over time, develop new technologies and acquire content that are perceived as being more secure, effective or cost efficient than the Company. These competitors could successfully garner a significant share of the market, to the exclusion of the Company. Furthermore, increased competition could result in pricing pressures, reduced margins, or the failure of the business to achieve or maintain market acceptance, any one of which could harm the business.

THE INABILITY TO SUCCESSFULLY EXECUTE TIMELY DEVELOPMENT AND INTRODUCTION OF NEW AND RELATED SERVICES AND TO IMPLEMENT TECHNOLOGICAL CHANGES COULD HARM THE BUSINESS.

The evolving nature of the Broadband business requires the Company to continually develop and introduce new and related services and to improve the

performance, features, and reliability of the existing services, particularly in response to competitive offerings.

The Company has under development new features and services for its businesses. The Company may also introduce new services. The success of new or enhanced features and services depends on several factors - primarily market acceptance. The Company may not succeed in developing and marketing new or enhanced features and services that respond to competitive and technological developments and changing customer needs. This could harm the business.

CAPACITY LIMITS ON THE COMPANY'S TECHNOLOGY AND NETWORK HARDWARE AND SOFTWARE MAY BE DIFFICULT TO PROJECT, AND THE COMPANY MAY NOT BE ABLE TO EXPAND AND/OR UPGRADE ITS SYSTEMS TO MEET INCREASED USE, WHICH WOULD RESULT IN REDUCED REVENUES.

While the Company has ample through-put capacity to handle its customers' requirements for the medium term, at some point it may be required to materially expand and/or upgrade its technology and network hardware and software. The Company may not be able to accurately project the rate of increase in usage of its network. In addition, it may not be able to expand and/or upgrade its systems and network hardware and software capabilities in a timely manner to accommodate increased traffic on its network. If the Company does not appropriately expand and/or upgrade our systems and network hardware and software in a timely fashion, it may lose customers and revenues.

INTERRUPTIONS TO THE DATA CENTERS AND BROADBAND NETWORKS COULD DISRUPT BUSINESS, AND NEGATIVELY IMPACT CUSTOMER DEMAND FOR THE COMPANY.

The Company's business depends on the uninterrupted operation at the data centers and the broadband networks run by the various service providers. The data centers may suffer for loss, damage, or interruption caused by fire, power loss, telecommunications failure, or other events beyond the Company. Any damage or failure that causes interruptions in the Company's operations could materially harm business, financial conditions, and results of operations.

In addition, the Company's services depend on the efficient operation of the Internet connections between customers and the data centers. The Company depends on Internet service providers efficiently operating these connections. These providers have experienced periodic operational problems or outages in the past. Any of these problems or outages could adversely affect customer satisfaction and customers could be reluctant to use our Internet related services.

THE COMPANY MAY NOT BE ABLE TO ACQUIRE NEW CONTENT, OR MAY HAVE TO DEFEND ITS RIGHTS IN INTELLECTUAL PROPERTY OF THE CONTENT THAT IS USED FOR ITS SERVICES WHICH COULD BE DISRUPTIVE AND EXPENSIVE TO ITS BUSINESS.

The Company may not be able to acquire new content, or may have to defend its intellectual property rights or defend against claims that it is infringing the rights of others, where its content rights are concerned. Intellectual property litigation and controversies are disruptive and expensive. Infringement claims could require us to develop non-infringing services or enter onto royalty or licensing arrangements. Royalty or licensing arrangements, if required, may not be obtainable on terms acceptable to the Company. The business could be significantly harmed if the Company is not able to develop or license new content. Furthermore, it is possible that others may license substantially equivalent content, thus enabling them to effectively compete against us.



THE COMPANY DEPENDS ON KEY PERSONNEL.

The Company depends on the performance of its senior management team. Its success depends on its ability to attract, retain, and motivate these individuals. There are no binding agreements with any of its employees that prevent them from leaving the Company at any time. There is competition for these people. The loss of the services of any of the key employees or failure to attract, retain, and motivate key employees could harm the business.

THE COMPANY RELIES ON THIRD PARTIES.

If critical services and products that the Company sources from third parties, such as content and network services were to no longer be made available to the Company or at a considerably higher price than it currently pays for them, and suitable alternatives could not be found, the business could be harmed.

THE COMPANY COULD BE AFFECTED BY GOVERNMENT REGULATION.

The list of countries to which our solutions and services could not be exported could be revised in the future. Furthermore, some countries may in future impose restrictions on streaming of broadband contents and related services. Failure to obtain the required governmental approvals would preclude the sale or use of services in international markets and therefore, harm the Company's ability to grow sales through expansion into international markets. While regulations in almost all countries in which our business currently operates generally permit the broadband services, such regulations in future may not be as favorable and may impede our ability to develop business.

THE COMPANY COULD BE AFFECTED BY PIRACY IN ASIA.

The Company is in the process of expanding its services globally, and in particular is entering specific countries in Asia with customized country sites. These country sites are designated to suit viewership patterns and styles in the countries they are launched in, and make use of the Company's content and intellectual property rights to the content. The piracy of content is a significant problem in many Asian countries, and it is not uncommon to see movies and television dramas appearing on illegal internet sites, and sold as pirated DVDs and VCDs. The extent of this piracy of content in the specific countries that the Company is launching its sites will adversely affect to a certain degree the amount of advertising and subscription revenues that the Company intends to earn.

THE COMPANY COULD BE AFFECTED BY ECONOMIC DOWNTURNS

The global economy underwent a massive downturn in 2009, which commenced in the second half of 2008. Many countries were faced with negative growth rates.. Where the media industry was concerned, major corporations reduced their advertising expenditures or even to cut back substantially all advertising and promotional expenditures towards the later half of 2008. The Company is heavily reliant on advertising and syndication revenues. Any future downturns in any one country that the Company operates its WOWtv service would significantly affect the Company's revenues.

OUR COMMON STOCK IS CONSIDERED A "PENNY STOCK". THE APPLICATION OF THE "PENNY STOCK" RULES TO OUR COMMON STOCK COULD LIMIT THE TRADING AND LIQUIDITY OF THE COMMON STOCK, ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK AND INCREASE THE TRANSACTION COSTS TO SELL THOSE SHARES.

Our common stock is a "low-priced" security or "penny stock" under rules promulgated under the Securities Exchange Act of 1934, as amended. In accordance with these rules, broker-dealers participating in transactions in low-priced securities must first deliver a risk disclosure document which describes the risks associated with such stocks, the broker-dealer's duties in selling the

stock, the customer's rights and remedies and certain market and other information. Furthermore, the broker-dealer must make a suitability determination approving the customer for low-priced stock transactions based on the customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing to the customer, obtain specific written consent from the customer, and provide monthly account statements to the customer. The effect of these restrictions will likely decrease the willingness of broker-dealers to make a market in our common stock, will decrease liquidity of our common stock and will increase transaction costs for sales and purchases of our common stock as compared to other securities.



THE STOCK MARKET IN GENERAL HAS EXPERIENCED VOLATILITY THAT OFTEN HAS BEEN UNRELATED TO THE OPERATING PERFORMANCE OF LISTED COMPANIES. THESE BROAD FLUCTUATIONS MAY BE THE RESULT OF UNSCRUPULOUS PRACTICES THAT MAY ADVERSELY AFFECT THE PRICE OF OUR STOCK, REGARDLESS OF OUR OPERATING PERFORMANCE.

Shareholders should be aware that, according to SEC Release No. 34-29093 dated April 17, 1991, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

WE DO NOT EXPECT TO PAY DIVIDENDS FOR THE FORESEEABLE FUTURE, AND WE MAY NEVER PAY DIVIDENDS. INVESTORS SEEKING CASH DIVIDENDS SHOULD NOT PURCHASE OUR COMMON STOCK.

We currently intend to retain any future earnings to support the development of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by Nevada state law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase our common stock.

FUTURE SALES OF OUR COMMON STOCK COULD PUT DOWNWARD SELLING PRESSURE ON OUR COMMON STOCK, AND ADVERSELY AFFECT THE PER SHARE PRICE. THERE IS A RISK THAT THIS DOWNWARD PRESSURE MAY MAKE IT IMPOSSIBLE FOR AN INVESTOR TO SELL SHARE OF COMMON STOCK AT ANY REASONABLE PRICE, IF AT ALL.

Future sales of substantial amounts of our common stock in the public market or the perception that such sales could occur, could put downward selling pressure on our common stock and adversely affect its market price.

THE OVER THE COUNTER BULLETIN BOARD IS A QUOTATION SYSTEM, NOT AN ISSUER LISTING

SERVICE, MARKET OR EXCHANGE. THEREFORE, BUYING AND SELLING STOCK ON THE OTC BULLETIN BOARD IS NOT AS EFFICIENT AS BUYING AND SELLING STOCK THROUGH AN EXCHANGE. AS A RESULT, IT MAY BE DIFFICULT FOR YOU TO SELL YOUR COMMON STOCK OR YOU MAY NOT BE ABLE TO SELL YOUR COMMON STOCK FOR AN OPTIMUM TRADING PRICE.

The Over the Counter Bulletin Board (the "OTC BB") is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Because trades and quotations on the OTC Bulletin Board involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmations may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTC Bulletin Board, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual's orders being executed, and current prices may differ significantly from the price one was quoted by the OTC Bulletin Board at the time of the order entry. Orders for OTC Bulletin Board securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTC Bulletin Board. Due to the manual order processing involved in handling OTC Bulletin Board trades, order processing and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not be able to sell shares of common stock at the optimum trading prices.

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The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTC Bulletin Board if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTC Bulletin Board may not have a bid price for securities bought and sold through the OTC Bulletin Board. Due to the foregoing, demand for securities that are traded through the OTC Bulletin Board may be decreased or eliminated.

WE GENERATED A NET LOSS OF $2,146,613 AND $33,693,548 BEFORE TAXES FOR THE YEARS ENDED DECEMBER 31, 2010 AND DECEMBER 31, 2009, RESPECTIVELY. WE MAY BE UNABLE TO CONTINUE AS A GOING CONCERN.

Our consolidated financial statements have been prepared on a going concern basis which assumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. We generated a consolidated net loss before taxes of $2,146,613 for the year ended December 31, 2010 compared to a consolidated net loss before taxes of $33,693,548 during 2009. We realized a negative cash flow from operating activities of $1,389,494 during 2010 compared to $1,952,720 in 2009. At December 31, 2010, we had an accumulated deficit of $39,425,386 and a working capital deficiency of $2,308,861 compared to an accumulated deficit of $37,436,006 and a working capital deficiency of $2,489,437 at December 31, 2009. At December 31, 2010, we had a stockholders' deficit of $141,597 compared to a stockholders' equity of $835,348 at December 31, 2009. Our ability to continue as a going-concern is in substantial doubt as it is dependent on a number of factors including, but not limited to, the receipt of continued financial support from

our investors, our ability to market and sell domain name assets for cash, our ability to raise equity or debt financing as we need it, and whether we will be able to use our securities to meet certain of our liabilities as they become payable. The outcome of these matters is dependent on factors outside of our control and cannot be predicted at this time.

ITEM 1B: UNRESOLVED STAFF COMMENTS

As a smaller reporting company, we are not required to provide this information.

ITEM 2: PROPERTIES

The headquarters for operations and management is located in Singapore in an office space of about 3,928 square feet. We entered into a three year operating lease paying a monthly rent of $9,332 (S$12,000). The headquarters is currently located at 62 Cecil Street, TPI Building, #06-00.

In addition to the office which housed the management staff of the Company, there is one other office: located in the US. The office in the US is situated on Sunset Boulevard, West Hollywood and it consists of 2,965 square feet.

The office in the US is on a monthly lease and the rent is $10,530.

The office in the US was subleased on November 1, 2007 as part of the Company's cost reduction measures.

We believe that our existing facilities are adequate to meet our current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms, although we have no assurance that future terms would be as favorable as our current terms.

The Company has not invested in any real property at this time nor does the Company intend to do so. The Company has no formal policy with respect to investments in real estate or investments with persons primarily engaged in real estate activities.



ITEM 3: LEGAL PROCEEDINGS

On September 15, 2008, M2B Commerce Limited filed a lawsuit in the Kingdom of Cambodia for breach of the Performance and Maintenance Agreement dated May 20, 2005 between M2B Commerce Limited and Allsports International Ltd, by Allsports International Ltd seeking damages in the total amount of $794,189 and calling for the termination of the Performance and Maintenance Agreement.

On December 4, 2008, M2B Commerce Limited filed two further lawsuits in the Kingdom of Cambodia against the owners of Allsports International Ltd, in support of its earlier suit of September 15, 2008 against Allsports International Ltd for breach of the Performance and Maintenance Agreement dated May 20, 2005. One lawsuit was against the four principal officers of Allsports International Ltd for breach of trust of the total amount of $794,189 owing to M2B Commerce Limited. The other lawsuit was to get Allsports International Ltd

to transfer the shares of the Lottery Company to M2B Commerce Limited, in lieu of the earlier lawsuit of September 15, 2008 which called for the termination of the Performance and Maintenance Agreement.

With the suspension of all digit gaming operations by the Cambodia Government in March 2009, and which the suspension is expected to be permanent, no progress has been made by the Cambodian Courts with respect to the three lawsuits filed on September 15, 2008 and December 4, 2008 in the Kingdom of Cambodia. The Company believes that the Cambodian Courts are not likely to pursue these legal cases with the parties concerned in the light of the digit games suspension in Cambodia.

On November 7, 2008, M2B World Asia Pacific Pte. Ltd was served a summons in Singapore by M2B Game World Pte. Ltd, a company owned 81% by Auston International Group Limited and 19% by M2B World Pte. Ltd, claiming a sum of US$153,744 (S$235,229) in unpaid invoices in 2006. Following this, M2B World Asia Pacific Pte. Ltd filed a counter claim to strike off this summons on the basis that the invoices were non-existent and that M2B World Asia Pacific Pte. Ltd was not yet incorporated as a company as of the date of the invoices produced by M2B Game World Pte. Ltd.

On February 23, 2009, M2B World Pte Ltd was served a summons in Singapore by Auston International Group Limited, claiming a sum of US$496,765 (S$760,050) to be paid as shortfall in Guaranteed Profit to M2B Game World Pte. Ltd for financial years 2006 and 2007, as part of the agreement for the acquisition of M2B Game World in December 20, 2005 between M2B World Pte Ltd and Auston International Group Limited. On March 20, 2009 in response to this summons, M2B World Pte. Ltd filed a counter-claim against Auston International Group Limited to claim damages amounting to US$1,568,172 and other damages as a result of material breaches on the part of Auston International Group Limited to the agreement of December 20, 2005 for the acquisition of M2B Game World Pte Ltd.

ITEM 4: [RESERVED]

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PUBLIC MARKET

Our common stock trades on the Financial Industry Regulatory Authority ("FINRA") over-the counter Bulletin Board market ("OTCBB") under the symbol "AMRU". As of March 1, 2011, there were 397 holders of our common stock.

The price of the Company's stock as of March 1, 2011 was $0.02.



The Company's high and low closing bid and close information for the fiscal years ended December 31, 2010 and 2009 is listed as provided by the Nasdaq website. Quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission and may not represent actual transactions.

| | Open | High |
|---|---|---|
| Year Ended December 31, 2010 | | |
| First Quarter | $ 0.08 | $ -- |
| Second Quarter | $ 0.09 | $ 0.09 |
| Third Quarter | $ 0.085 | $ -- |
| Fourth Quarter | $ 0.032 | $ -- |
| | | |
| Year Ended December 31, 2009 | | |
| First Quarter | $ 0.1000 | $ -- |
| Second Quarter | $ 0.1000 | $ 0.1000 |
| Third Quarter | $ 0.0900 | $ -- |
| Fourth Quarter | $ 0.1000 | $ 0.1000 |

* Closing price is provided as of the last day of the month.

DIVIDENDS

The Company does not expect to pay any dividends at this time. The payment of dividends, if any, will be contingent upon the Company's revenues and earnings, capital requirements, and general financial condition. The payment of any dividends will be within the discretion of the Company's Board of Directors and may be subject to restrictions under the terms of any debt or other financing arrangements that the Company may enter into in the future.

RECENT SALE OF UNREGISTERED SECURITIES

As of December 22, 2010, the Company issued a total of 2,146,467 shares of common stock through its private placement of shares of common stock at a purchase price of $0.03 per share for a total amount of $64,394.00, to an "accredited investor", as that term is defined in Regulation D of the Securities Act of 1933.

As of December 1, 2010, the Company issued a total of 1,221,374 shares of common stock through its private placement of shares of common stock at a purchase price of $0.05 per share for a total amount of $61,068.70, to an "accredited investor", as that term is defined in Regulation D of the Securities Act of 1933.

As of February 17, 2010 to November 9, 2010, the Company issued a total of 10,442,053 shares of common stock through its private placement of shares of common stock at a purchase price of $0.10 per share for a total amount of $1,044,205.34, to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933.

The total amount of funds raised through the private placements of shares of common stock for the year ended December 31, 2010 was $1,169,668.04. The total proceeds were used for working capital.

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The shares of the Company's common stock in above private placements were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D/Regulation S of the Securities Act of 1933. Appropriate investment representations were obtained and the securities were issued with restrictive legends.

The shares of the Company's common stock were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D/Regulation S of the Securities Act of 1933.

EQUITY COMPENSATION PLAN

The Company's 2004 Equity Compensation Plan has 2,921,260 million shares remaining as of December 31, 2010. In 2007 and 2008, no shares were issued under the Company's 2004 Equity Compensation Plan. In 2006 and 2005, the Company issued 420,000 shares and 58,740 shares respectively under the 2004 Equity Compensation Plan. There are no outstanding options under the 2004 Equity Compensation Plan.

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ITEM 6: SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from the Company's audited financial statements. These data is not necessarily indicative of results of future operations, and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 and, the Consolidated Financial Statements and Notes to Consolidated Financial Statements under Item 8.

No cash dividends were declared in any of the years shown below:

| | Years Ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| STATEMENT OF OPERATIONS DATA: | | |
| Revenues (1) | $ 48,382 | $ 22,016 |
| Cost of Services | 248,573 | 226,319 |
| Gross Profit (Loss) | (200,191) | (204,303) |
| Operating income (loss) | (1,504,063) | (33,738,846) |
| Net Income (loss) | (2,146,613) | (33,693,548) |
| Basic and diluted income (loss) per share | (0.013) | (0.21) |

| | | |
|---|---|---|
| Shares used in computing basic and diluted income/loss per common share | 171,361,807 | 157,266,951 |
| BALANCE SHEET DATA: | | |
| Working Capital (Deficit) | (2,308,861) | (2,489,437) |
| Total Assets | 3,332,345 | 4,232,297 |
| Long-term obligations | 24,765 | 36,924 |
| Stock holders' (Deficit) Equity | (141,597) | 835,348 |

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NOTES ON SELECTED FINANCIAL DATA

(1) The digit gaming operations were suspended in March 2009 by the Cambodia Government, as part of the suspension of all lotteries in Cambodia, resulting in the removal of such revenues in 2008.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE,THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

You should read the following discussion of our financial condition and results of operations together with our consolidated financial statements and the notes to our consolidated financial statements included elsewhere in this report.



General

The Company is in the business of broadband entertainment-on-demand, streaming via computers, television sets, and 3G (Third Generation) devices and the provision of broadband services. Its business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication, broadband consulting services, broadband hosting and streaming services and E-commerce.

The Company was also in the business of digit gaming (lottery). The Company had an 18 years license to conduct nation wide lottery in Cambodia. The Company through its subsidiary, M2B Commerce Limited, signed an agreement with Allsports Limited, a British Virgin Islands company to operate and conduct digit games in Cambodia and to manage the digit games activities in Cambodia. On March 25, 2009, the Company was notified that the digit games were suspended by the At this time, the Company believes that the suspension of the digit games is permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

The following discussion should be read in conjunction with selected financial data and the financial statements and notes to financial statements.

OVERVIEW

The business focus of the Company is Entertainment-on-Demand and E-Commerce Channels on Broadband, and 3G (Third Generation) devices.

For the broadband, the Company delivers both wire and wireless solutions, streaming via computers, TV sets, PDAs and 3G hand phones. At the same time the Company launches e-commerce channels (portals) that provide on-line shopping but with a difference, merging two leisure activities of shopping and entertainment. The entertainment channels are designed to drive and promote the shopping portals, and vice versa.

The Company's business model in the area of broadband entertainment includes e-services, which would provide the Company with multiple streams of revenue. Such revenues would be derived from advertising and branding (channel and program sponsorship); on-line subscriptions; online games micro-payments; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; on-line shopping turnkey solutions; broadband hosting and streaming services; E-commerce commissions and on-line dealerships; and digit game operations.

In fiscal 2008, the business was reorganized under the following entities to spearhead the expansion of the Company's business and focus on specific growth areas and territories.

M2B WORLD PTE. LTD.

M2B World Pte. Ltd. was incorporated on April 3, 2003. This subsidiary used to

oversee the management and operation of the Company as a whole and oversees the Asian business. With effect from September 1, 2006, the Company's Asian business was overseen by another subsidiary, M2B World Asia Pacific Pte. Ltd.

The Company took an investment on May 16, 2005 for a 9.1% equity position with a company called Activ Lifestyle Pte Ltd in Singapore to help facilitate Amaru Inc.'s diversification into the health and wellness market.On September 27, 2005, the Company raised its investment in Activ Lifestyle Pte Ltd to 12.6%. This was further increased to 17.4% as of December 31, 2006.

In December 2005, M2B World Pte. Ltd. sold 81% equity interests of its wholly-owned subsidiary, M2B Game World Pte. Ltd. to Auston International Group Ltd (Auston), a public listed company in Singapore, in exchange for 27% equity interest in Auston. As of December 31, 2008, the Company disposed all of its common shares in Auston. As of the date of this report, the Company holds no shares in Auston.

M2B WORLD, INC.

M2B World, Inc., a California corporation, was incorporated on January 24, 2005. This subsidiary handles and oversees the Company's business in the U.S. The Company has leased a new office on Sunset Boulevard, West Hollywood that came into effect in August 2006, which offices are currently being subleased (see below). In October 2007, M2B World Inc reduced its staffing and in November 2007 sub-leased its premise as part of the Company's cost reduction measures.

On May 27, 2005, M2B World, Inc. entered into an agreement with Indie Vision Films, Inc., a California corporation, to purchase 20% of the beneficial ownership of Indie Vision Films, Inc. The investment will allow M2B World, Inc.to access the library of programs of Indie Vision Films, Inc. The Company entered into an agreement on December 22, 2009 with Indie Vision Films, Inc to convert its investment into content rights, thereby giving up its 20% share of beneficial ownership in lieu of library rights that the Company could exploit commercially for international use.



On November 1, 2007, the Company sub-leased the office premises of M2B World Inc, a wholly owned subsidiary of the Company in Los Angeles, California as part of its efforts to streamline its operations and reduce operating costs. The staffing of M2B World Inc was also reduced from 9 staff to 1 staff as of October 31, 2007, and remains as 1 staff as of the date of this report. The company has transferred its server farm to the Singapore server farm to, optimize bandwidth and support cost.

M2B WORLD ASIA PACIFIC PTE. LTD.

M2B World Asia Pacific Pte Ltd was incorporated in the Republic of Singapore on 1 August 2006 for the purposes of handling all the business operations of the Company in the Asia Pacific region. This company had taken over the Asian business operations as well as the assets and liabilities of M2B World Pte. Ltd. with effect from September 1, 2006.

On January 3, 2007, M2B World Asia Pacific Pte Ltd, issued 7,778,014 shares of common stock through a private placement at a price of $0.77 a share for a total amount of $6,000,000. This had effectively reduced the Company's effective equity interest in M2B World Asia Pacific Pte. Ltd from 100% to 81.6%.

On July 8, 2008, M2B World Asia Pacific Pte Ltd signed a two year convertible

loan agreement with a third party to raise $2,500,000 in funding. The loan allows the borrower to convert the loan into shares of the Company at the issue price of $0.942 per share at the end of the two years period. The loan bears an interest rate of 5.0% per annum, and will mature in June 2010. The note was obtained from a company in which a board of director is the Joint Company Secretary of the lender. Subsequent to June 30, 2010, the conversion period of the convertible loan was extended for an additional twelve months commencing July 8, 2010.

M2B COMMERCE LIMITED

M2B Commerce Limited, a company incorporated in the British Virgin Islands on July 25, 2002, focuses on e-commerce and digit gaming, with a branch in Cambodia that oversees the digit gaming operation in Cambodia.

The Company has an agreement with Allsports Limited, a British Virgin Islands company to operate, administer, and manage the lottery digit game activities in Cambodia, as an extension of the Company's entertainment operations. On March 25, 2009, the Company was notified that the digit game were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. At this time, the Company believes that the suspension of the digit game is permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.



The company had entered into an investment agreement on January 12, 2006, with Khoo Kim Leng, the beneficial owner of Dai Long Co., Ltd, which holds a valid casino license and freehold land and intends to develop and operate an integrated resort in the Kingdom of Cambodia. The resort will feature a hotel, guest house, shopping arcade, entertainment and amusement center and some gaming tables. As of December 31, 2006, the company had invested $2,402,613 in relation to this investment. The resort was completed and is in operation.

M2B ENTERTAINMENT, INC.

On April 19, 2010, M2B Entertainment, Inc. was dissolved because the Company did not want to continue operations in Canada.

M2B AUSTRALIA PTY LTD

M2B Australia Pty Ltd was incorporated on June 15, 2005. This subsidiary handles and oversees the Company's business in Australia. As of December 31, 2010 this subsidiary is dormant.

M2B WORLD TRAVEL SINGAPORE PTE. LTD.

M2B World Travel Singapore Pte Ltd was incorporated in the Republic of Singapore on March 7, 2006. This subsidiary of M2B World Travel Limited launches a global online travel platform which offers global e-travel services.

The Company has completed the development of an online travel engine and travel web applications for integration with suppliers of travel information and travel services; and incorporating travel features with current media operations under the M2B brand name.

M2B World Travel Limited signed a global agreement with Amadeus Global Travel Distribution, SA, a Spanish corporation. Through the agreement, the company will

be able to offer direct access to the extensive range of travel options available through the Amadeus network to viewers around the world.

AMARU HOLDINGS LIMITED AND M2B WORLD HOLDINGS LIMITED

Amaru Holdings Limited and M2B World Holdings Limited are incorporated in the British Virgin Islands on February 21, 2005 and June 15, 2006, respectively. Amaru Holdings Limited focuses on content syndication and distribution in areas other than Asia Pacific region. M2B World Holdings Limited focuses on content syndication and distribution in Asia Pacific region and is a subsidiary of M2B World Asia Pacific Pte. Ltd.

TREMAX INTERNATIONAL LIMITED AND M2B WORLD TRAVEL LIMITED

Tremax International Limited and M2B World Travel Limited are both incorporated in the British Virgin Islands on June 8, 2006 and May 3, 2005 respectively. Both companies are investment holdings companies.

On July 10, 2007, Tremax International Limited entered into a sale and purchase agreement (the "Agreement") with Domaine Group Limited, a British Virgin Islands corporation (the "Vendor"), for the acquisition of CBBN Holdings Limited ("CBBN Holdings"). CBBN Holdings is a 80% beneficial owner of Cosmactive Broadband Networks Co. Ltd ("CBN"), which is a broadband service provider incorporated in Taiwan. The purchase consideration is satisfied in full by the issuance of 5,333,333 of common stock of the Company.

On January 22, 2009, the Company approved the termination and rescission of the Agreement, because the seller failed to comply with the terms of the Agreement and did not deliver to the Company or Purchaser the consideration for the issuance of the Company's common stock. The Company further approved the cancellation of the common stock issued by the Company under the Agreement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the preparation of the financial statements, the Company adopted the following critical accounting policies.

FILM LIBRARY

Investment in the Company's film library includes movies, dramas, comedies and documentaries in which the Company has acquired distribution rights from a third party. For acquired films, these capitalized costs consist of minimum guarantee payments to acquire the distribution rights. Costs of acquiring the Company's film libraries are amortized using the individual-film-forecast method, whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the films. Ultimate revenue for acquired films includes estimates over a period not to exceed twenty years following the date of acquisition. Investments in films are stated at the lower of amortized cost or estimated fair value.



The valuation of investment in films is reviewed on a overall basis, when an event or change in circumstances indicates that the fair value of the film library is less than its unamortized cost. The fair value

of the film is determined using management's future revenue and cost estimates and a discounted cash flow approach. Additional amortization is recorded in the amount by which the unamortized costs exceed the estimated fair value of the film. Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management's future revenue estimates.

The Company most recently completed an impairment evaluation in the fourth quarter of fiscal year 2009. The film library was determined to be impaired during the year ended December 31, 2009. In conducting the analysis, the Company used a discounted cash flow approach in estimating fair value as market values could not be readily determined given the unique nature of the respective assets.

INTANGIBLE ASSETS

Intangible assets consist of gaming licenses, software licenses and product development costs. Intangible assets which were purchased and have indefinite lives are stated at cost less impairment losses. Intangible assets which were purchased for a specific period are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized over the period of the contract, which is 2 to 18 years.

REVENUE

Subscription and related services revenues are recognized over the period that services are provided. Advertising and sponsorship revenues are recognized as the services are performed or when the goods are delivered. Licensing and content syndication revenue is recognized when the license period begins, and the contents are available for exploitation by customer, pursuant to the terms of the license agreement. Gaming revenue is recognized as earned net of winnings. E-commerce commissions are recognized as received. Broadband consulting services and on-line turnkey solutions revenue are recognized as earned.

The Company has adopted accounting pronouncements issued before December 31, 2010, that are applicable to the Company.



RESULTS OF OPERATIONS

For the fiscal year ended December 31, 2010 compared with the fiscal year ended December 31, 2009.

FINANCIAL STATEMENT

- Revenue for the year ended December 31, 2010 was $48,382 compared with $22,016 in 2009.

- Loss from operations was $1,504,063 in 2010 compared with loss of $33,738,846 in 2009.

- Net loss was $2,146,613 in 2010 compared with loss of $33,693,548 in 2009.

- The Company's cash balance was $221,183 at December 31, 2010 compared with $356,477 at December 31 2009.

Revenue

The following table sets forth a year-over-year comparison of the key components of the Company's revenues :

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| ENTERTAINMENT | $ 48,382 | $ 22,016 | $ 26,366 | 120% |
| DIGIT GAMES | $ -- | $ -- | $ -- | 0% |
| OTHER | -- | $ -- | $ -- | -% |
| TOTAL REVENUES | $ 48,382 | $ 22,016 | $ 26,366 | 120% |

Entertainment revenue for the year ended December 31, 2010 at $48,382 was higher than entertainment revenue of $22,016 for year ended December 31, 2009 by $26,366 (120%). It was mainly due to the increase in advertising revenue from new customers during 2010.



COST OF SERVICES

The following table sets forth a year-over-year comparison of the Company's cost of services :

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| COST OF SERVICES | $248,573 | $226,319 | $ 22,254 | 10% |

Cost of services for the years ended December 31, 2010 was $248,573 which increased by $22,254 (10%) from $226,319 for the year ended December 31, 2009. It was mainly due to increase in cost spending on website design and maintenance costs by $20,567 (46%) from $44,214 for the year ended December 31, 2009 to $64,681 for the year ended December 31, 2010.

DISTRIBUTION EXPENSES

The following table sets forth a year-over-year comparison of the Company's distribution expenses :

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| TOTAL DISTRIBUTION EXPENSES | $40,450 | $299,881 | $(259,431) | (87%) |

Distribution expenses for the year ended December 31, 2010 at $40,450 Were lower by $259,431 (87%) as compared to the amount of $299,881 Incurred for the year ended December 31, 2009.

The lower distribution expenses were attributed to decreased spending on marketing and promoting the WOWtv and M2Btv services which decreased by $210,472 (97%) from $217,483 for the year ended December 31, 2009 to $7,011 for the year ended December 31, 2010

BAD DEBTS WRITTEN OFF

The following table sets forth a year-over-year comparison of the Company's bad debts written off:

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| BAD DEBTS WRITTEN OFF | $ -- | $9,641,508 | $ (9,641,508) | (100%) |

The bad debts written off were primarily attributed to the write off of the outstanding balance of $9,500,000 receivables from sale of IPTV platform for the year ended December 31, 2009.

GENERAL AND ADMINISTRATIVE EXPENSES

The following table sets forth a year-over-year comparison of the Company's general and administrative expenses :

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | $1,263,422 | $1,701,341 | $(437,919) | (26%) |

ADMINISTRATION EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2010 AT $1,263,422 WERE LOWER BY $437,919 (26 %) AS COMPARED TO THE AMOUNT OF $1,701,341 INCURRED FOR THE YEAR ENDED DECEMBER 31, 2009.

THE DECREASE IN ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2010 WAS ATTRIBUTED MAINLY TO THE DECREASE IN:

- DEPRECIATION AND AMORTIZATION. EQUIPMENT DEPRECIATION AND LICENSE AMORTIZATION HAD DECREASED BY $281,980 (48%), FROM $589,644 FOR THE YEAR ENDED DECEMBER 31,2009 TO $307,664 FOR THE YEAR ENDED DECEMBER 31,2010. THE DECREASE WAS MAINLY DUE TO MOST OF THE INTANGIBLE ASSETS AND EQUIPMENT BEING FULLY AMORTIZED AND IMPAIRED DURING END OF DECEMBER 31, 2009.

- LEGAL AND PROFESSIONAL FEES. FEES HAD DECREASED BY $92,265 (33%), FROM $277,656 FOR THE YEAR ENDED DECEMBER 31, 2009 TO $185,391 FOR THE YEAR ENDED DECEMBER 31, 2010. THE DECREASE WAS MAINLY DUE AS A RESULT OF COSTS REDUCTION MEASURES TO REDUCE OPERATING COSTS

- STAFF COSTS. STAFF COSTS HAD DECREASED BY $33,880 (9%), FROM $357,061 FOR THE YEAR ENDED DECEMBER 31, 2009 TO $323,181 FOR THE YEAR ENDED DECEMBER 31, 2010.THE DECREASE WAS MAINLY DUE AS A RESULT OF COSTS REDUCTION MEASURES TO REDUCE OPERATING COSTS



INVENTORIES WRITTEN OFF

The following table sets forth a year-over-year comparison of the Company's inventories written off :

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| INVENTORIES WRITTEN OFF | $ -- | $642,267 | ($642,267) | (100%) |

Inventories were fully written off for the year ended December 31, 2009.

IMPAIRMENT LOSS ON FILM LIBRARY

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| IMPAIRMENT LOSS ON FILM LIBRARY | $ -- | $19,164,782 | ($19,164,782) | (100%) |

For the year ended December 31, 2009, there was an impairment loss of $19,164,782 due to a lack of revenue the past two fiscal years.

IMPAIRMENT LOSS ON INTANGIBLE ASSET

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| IMPAIRMENT LOSS ON INTAGIBLE ASSETS | $ -- | $2,084,764 | ($2,084,764) | (100%) |

For the year ended December 31, 2009, there was an impairment loss of $2,084,764 on intangible assets.

The impairment loss of $2,084,764 for the year ended December 31, 2009 was due to the impairment of online game license which has yet to commence its operations.

IMPAIRMENT LOSS ON INVESTMENTS-NET

| | YEAR ENDED DECEMBER 31 | | VARIANCE 2010 VS. 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| IMPAIRMENT LOSS ON INVESTMENTS - NET | $875,673 | $ -- | $875,673 | 100% |



(LOSS) INCOME FROM OPERATIONS

The following table sets forth a year-over-year comparison of the Company's income from operations:

| | Year Ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| (LOSS) INCOME FROM OPERATIONS | $(1,504,063) | $(33,378,846) |

THE COMPANY INCURRED A LOSS FROM OPERATIONS OF $1,504,063 FOR THE YEAR ENDED DECEMBER 31, 2010 AS COMPARED TO THE LOSS FROM OPERATIONS OF $33,378,846 FOR THE YEAR ENDED DECEMBER 31, 2009. THIS WAS MAINLY DUE TO THE WRITE OFF OF THE OUTSTANDING BALANCE $9,500,000 RECEIVABLES FROM SALE OF IPTV PLATFORM, IMPAIRMENT LOSS ON THE FILM LIBRARY OF $19,164,782, AND IMPAIRMENT LOSS OF INTANGIBLE ASSET OF $2,084,764 DURING 2009.

NET INCOME ( LOSS )

The following table sets forth a year-over-year comparison of the Company's net income (loss) :

| | Year Ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| Net income ( Loss ) | $(2,146,613) | $(33,693,548) |

NET LOSS FOR THE YEAR ENDED DECEMBER 31, 2010, WAS $2,146,613 WHICH DECREASED BY $31,546,935 (94%) FROM NET LOSS OF $33,693,548 FOR THE YEAR ENDED DECEMBER 31, 2009.

The significant decrease in net loss for the year ended December 31 2010 was mainly attributed to the loss from operations of $32,234,783 (96%) as explained above under Loss From Operations for the year ended December 31, 2010.



LIQUIDITY AND CAPITAL RESOURCES

The Company had cash of $221,183 at December 31, 2010 as compared to cash of $356,477 at December 31, 2009.

The Company does not finance its operations through short-term bank credit nor long-term bank loans as it believes that cash generated from its operations will be able to cover its daily running cost and overheads.

During the year ended December 31, 2010, the Company had not entered into any transactions using derivative financial instruments or derivative commodity instruments. Accordingly the Company believes its exposure to market interest rate risk is not material.

In summary of the sources and use of cash, the Company had raised $1,169,668 through equity financings in fiscal year 2010. The cash generated from financing activities totaling $1,267,857 was used to cover the Company's operations and to reduce the Company's accounts payable and accrued expenses levels by $88,400 for fiscal year 2010.

There was net cash used in operating activities of $1,389,494 and $1,952,720, for each of the two years in 2010 and 2009, respectively. The decrease of $563,226 for net cash used in operating activities in 2010 as compared to 2009 was mainly due to reduction of payments to the Company's suppliers.

There was net cash used in investing activities of $13,657 and $293,194 for each of the two years in 2010 and 2009, respectively. The decrease of $279,537 for net cash used in investing activities in 2010 as compared to 2009 was mainly due to no acquisition of investments available for sale.



There was net cash provided by financing activities of $1,267,857 and $1,117,446 for each of the two years in 2010 and 2009, respectively. The increase of $150,411 for net cash provided by financing activities in 2010 as compared to 2009 was mainly due to a higher sum of financing raised through related parties.

The Company's intention in fiscal year 2011 is to raise additional

funds through new equity placements with investors to fund its business, and the intended growth plans. To date, the Company has raised $1,468,251.94 for 2011, and is expected to raise more new funding during the year. This new funding coupled with its cash as at December 31, 2010 should be able to cover operating expenses for the fiscal year 2011, and the Company believes that it should be able to raise additional funding for the next fiscal year.

The Company has relinquished its old trade obligations and reduced the overall fixed overhead cost. On the operational side, where possible, IT work has been out-sourced to other countries with lower labor cost. The most significant operational factor is the disproportionately high bandwidth cost. With that in mind the Company has strategized a two-prong approach. A Joint Venture Company called Mediamedes was formed in Sept 2010 to gain access to a Danish streaming technology to allow streaming in greater volume at lower bandwidth cost. On its own, the Company has signed a working contract with Velocix in March, 2011, to deliver superior streaming technology at lower cost. In addition to the Company's content of I-Concerts, Mr Paparazzi, Auto TV gained in 2010, the Company is seeking to acquire new Contents from Holland, Mid-East, Australia, Korea, Japan and China. Currently, the Company is finalizing a cooperation agreement with m1905, a fully owned subsidiary of CCTV6. The Company's goal is to keep contents current at 'zero-cost' acquisition, with revenue share model where possible. During the industry downturn, the Company has continued to push its key selling points of legal contents across various countries, It is rewarded by the newly enforced Intellectual Property Rights in China and globally. This puts the Company's content library in a favourable position in negotiating for new business ventures. The Company believes that being based in Singapore, at the crossroads of communication and commerce, it is ideally placed to develop the media industry. The Company's fully legal Contents and various country rights, enables it to take advantage of the Internet and Mobile 3G/4G roll out regionally and globally. The Company has a self sufficient, complete and compact operation, cross-platforms abilities, and new product developments, and is nimble enough to adapt to the new media to realize revenue for the highly connected mobile marketplace. We expect that the broadband business segment would be able to generate sufficient cash to cover its operations in fiscal year 2011. Cash generated from operations meanwhile will not be able to cover the Company's intended growth and expansion. The Company intends to raise additional funds to fund its business expansion until its revenue generation is self sufficient to fund the business. However no assurances can be made that the Company will raise sufficient funds as planned.

NEW CONTRACTS

On May 20, 2010, the Company through its subsidiary, M2B World Asia Pacific Pte. Ltd. ("M2B") signed an agreement with Auto TV Corporation Pte. Ltd., ("Auto TV"), one of the world's leading provider of premium automobile content, to launch Auto TV channel on the Company's WOWtv. M2B and Auto TV shall share net of total revenue collected in the ratio of 40%("M2B"):60%("Auto TV").

On July 23, 2010, the Company through its subsidiary, M2B World Asia Pacific Pte. Ltd. ("M2B") signed an agreement with I-Concerts Asia Pte. Ltd., ("I-Concerts"), one of the world's largest collection of live concert recordings, to launch live music channel on the Company's WOWtv. The Company and I-Concerts shall share net of total revenue collected in the ratio of 40%("M2B"):60% ("I-Concerts").

On August 31, 2010, the Company through its subsidiary, M2B World Asia

Pacific Pte. Ltd. ("M2B") signed an agreement with Starhub Mobile Pte. Ltd. ("Starhub"), a Singapore corporation, one of the leading info-communications providers. Pursuant to the terms of the Agreement, Starhub shall launch the Company's content and services on mobile platform of Starhub mobile Network. The Company shall be paid 50% of net of total revenue collected by Starhub.



On September 1, 2010, the Company signed a MDA with Mr. Paparazzi.com (UK) to distribute Paparazzi's contents on an exclusive basis for Asia Pacific region, including China.

On March 7, 2011, the Company through its subsidiary, M2B World Asia Pacific Pte. Ltd. ("M2B") signed an agreement with Panasonic Asia Pacific Pte. Ltd. ("Panasonic"), one of the world's leading electronics producers. Pursuant to the terms of the Agreement, Panasonic shall launch M2B's content and services on connected TV platform, Viera Connect of Panasonic in the Asia Pacific region, namely Singapore, Malaysia, Thailand, Vietnam, Philippines, Indonesia, India, Australia and New Zealand. M2B and Panasonic shall share net of total revenue collected in the ratio of 90%("M2B"):10%("Panasonic").



## ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we may invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment will decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, high-grade corporate bonds, government and non- government debt securities and certificates of deposit. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. The Company held $3,335,964 and $3,045,729 in marketable securities as of December 31, 2010 and 2009 respectively.

The Company does not believe that it faces material market risk with respect to its cash and cash equivalents which totaled $221,183 and $356,477 at December 31, 2010 and 2009, respectively.

The Company has no material long-term obligations or hedging activities.

ABILITY TO EXPAND CUSTOMER BASE

The Company's future operating results depend on our ability to expand our customer base for broadband services and e-commerce portals. An increase in total revenue depends on our ability to increase the number of broadband and e-commerce portals, in the US, Europe and Asia. The degree of success of this depends on:

- our efforts to establish independent broadband sites in countries where conditions are suitable.

- our ability to expand our offerings of content in entertainment to include more niche channels and offerings.

- our ability to provide content beyond just personal computers but to encompass television, wireless application devices and 3G hand phones.

ABILITY TO ACQUIRE NEW MEDIA CONTENTS

The continued ability of the Company to acquire rights to new media contents, at competitive rates, is crucial to grow and sustain the Company's business.

AVAILABILITY OF TECHNOLOGICALLY RELIABLE NEW GENERATION OF BROADBAND DEVICES

The growth of demand for broadband services is dependent on the wide availability of technologically reliable new generation of broadband devices, at affordable prices to prospective customers of broadband services. The early and widespread availability and market adoption of new generation broadband devices, will significantly impact demand for broadband services and the growth of the Company's business.



CAPITAL INVESTMENT IN BROADBAND INFRASTRUCTURE BY GOVERNMENT AND TELCOS

The growth of demand for broadband services is dependent on the capital investment in broadband infrastructure by governments and Telcos. A significant source of demand for the Company's broadband services could be from homes and enterprises with access to high-speed broadband connections. The ability of countries to invest in public broadband infrastructure to offer public accessibility is subject to countries' economic health. The Company's prospects for business growth in Asia especially would be impacted by overall economic conditions in the territories that we seek to expand into.

COMPETITION FROM BROADBAND CABLE AND TV NETWORKS OPERATORS

The competition of services provided by broadband cable network operators and TV networks. As traditional TV networks and cable TV operators provide alternate supply of entertainment and on-demand broadband services, they are in competition with the Company, for market share. The Company, nevertheless, will continue to leverage on its advantage of ownership rights to its own portfolio of media content and its ability to provide broadband services over both the cable and wireless networks, at competitive rates.

The Company's business is reliant on complex information technology systems and networks. Any significant system or network disruption could have a material adverse impact on our operations and operating results. The Company's nature of business is highly dependent on the efficient and uninterrupted operation of complex information technology systems networks, may they, either be that of ours, or our Telco/ ISP partners.

All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to computer viruses, security breach, energy blackouts, natural disasters and terrorism, war and telecommunication failures.

System or network disruptions may arise if new systems or upgrades are defective or are not installed properly. The Company has implemented various measures to manage our risks related to system and network disruptions, but a system failure or security breach could negatively impact o/td>102,472

(Loss) income from operations(4,908) 61
(11,036) (9,323)
Interest income209
679
1,167
1,800
Other expense—
—
—
(426)
(Loss) income before income taxes(4,699) 740
(9,869) (7,949)
Provision for (benefit from) income taxes879
(41) 2,574
(703)
Net (loss) income$(5,578) $781
$(12,443) $(7,246)
Net (loss) income per common share:
Basic$(0.13) $0.02
$(0.29) $(0.17)
Diluted$(0.13) $0.02
$(0.29) $(0.17)
Weighted average common shares outstanding—basic42,411,871
41,723,667
42,239,081
41,512,189
Weighted average common shares outstanding—diluted42,411,871
43,481,392
42,239,081
41,512,189
Other comprehensive (loss) income:
Foreign currency translation loss(173) (87) (639) (36)
Comprehensive (loss) income$(5,751) $694
$(13,082) $(7,282)

[1]Stock-based compensation expense included in the above:

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $514 | $533 | $1,487 | $1,506 |
| Sales and marketing | 1,546 | 950 | 4,493 | 3,085 |
| Research and development | 1,559 | 835 | 4,246 | 2,309 |
| General and administrative | 1,073 | 533 | 3,009 | 1,506 |
| Total | $4,692 | $2,851 | $13,235 | $8,406 |

See accompanying notes to the consolidated financial statements

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Cvent, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating activities: | | |
| Net loss | $(12,443) | $(7,246) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 19,149 | 14,229 |
| Loss on asset disposal | — | 436 |
| Foreign currency transaction gain | 17 | 27 |
| Stock-based compensation expense | 13,235 | 8,406 |
| Deferred taxes | 56 | (2,851) |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net | 1,086 | 22,599 |
| Prepaid expenses and other assets | 3,810 | (4,331) |
| Accounts payable, accrued expenses and other liabilities | 13,427 | 3,755 |
| Deferred revenue | 12,466 | (9,585) |
| Net cash provided by operating activities | 50,803 | 25,439 |
| Investing activities: | | |
| Purchase of property and equipment | (3,220) | (3,973) |
| Capitalized software development costs | (16,239) | (15,278) |
| Net maturities (purchases) of short-term investments | 16,824 | (8,367) |
| Acquisition and acquisition-related consideration payments | (1,063) | (19,259) |
| Restricted cash | 378 | 15 |
| Net cash used in investing activities | (3,320) | (46,862) |
| Financing activities: | | |
| Proceeds from exercise of stock options | 4,139 | 1,663 |
| Excess tax benefits from stock-based compensation | — | 2,514 |
| Net cash provided by financing activities | 4,139 | 4,177 |
| Effect of exchange rate changes on cash and cash equivalents | (1,219) | (124) |
| Change in cash and cash equivalents | 50,403 | (17,370) |
| Cash and cash equivalents, beginning of period | 118,662 | 144,544 |
| Cash and cash equivalents, end of period | $169,065 | $127,174 |
| Supplemental cash flow information: | | |
| Income tax (refund received) paid | $(3,883) | $568 |
| Supplemental disclosure of noncash investing activities: | | |
| Outstanding payments for purchase of property and equipment in accounts payable at period end | $350 | $322 |

See accompanying notes to the consolidated financial statements

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CVENT, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)
(Unaudited)

1. Description of Business

Cvent, Inc. (the "Company") provides a cloud-based enterprise event management platform with solutions for both sides of the events and meetings value ecosystem: (i) event and meeting planners, through its Event Cloud and (ii) hoteliers and venues, through its Hospitality Cloud. The Company's integrated Event Cloud solution addresses the entire event lifecycle by allowing event and meeting planners to automate and streamline the process. The Company's Hospitality Cloud provides hotels and venues with a full solution suite to create, manage and measure demand for their group meetings. The combination of these cloud-based solutions creates an integrated platform that allows the Company to generate revenue from both sides of the events and meetings ecosystem.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial information presented in the accompanying unaudited consolidated financial statements as of September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015 has been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of the financial position as of September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine months ended September 30, 2016 and 2015. These unaudited consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto.

(b) Reclassification

Certain items in the prior period financial statements have been reclassified for comparative purposes to conform to the current period presentation.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions made by management include estimated useful lives of property and equipment and capitalized software development costs, the fair value of goodwill and intangibles, determination of estimated selling prices, allowances for doubtful accounts, valuation of deferred tax assets, valuation assumptions in purchase accounting, certain assumptions related to stock-based compensation, income taxes and legal and other contingencies. Actual results could differ from those estimates and assumptions.

(d) Cash and Cash Equivalents

Highly liquid financial instruments purchased with original maturities of 90 days or less at the date of purchase are reported as cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Included in cash and cash equivalents are funds representing amounts reserved for registrations sold on behalf of customers. While these funds are not restricted as to their use, a liability for amounts due to customers under these arrangements has been recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheets. The Company had amounts due to customers of $4.3 million and $1.8 million included within cash and cash equivalents as of September 30, 2016 and December 31, 2015, respectively.

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(e) Short-term Investments

The Company's short-term investments consist of highly liquid financial instruments with original maturities greater than 90 days but less than one year. These short-term investments are comprised of certificates-of-deposit.

(f) Revenue Recognition

The Company derives revenue from two primary sources: Event Cloud subscription-based solutions and Hospitality Cloud marketing solutions. These services are generally provided under annual and multi-year contracts that are generally only cancellable for cause. Revenue is generally recognized on a straight-line basis over the term of the contract. The Company recognizes revenue when all of the following conditions are met:

(i) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which the solutions or services will be provided;
(ii) delivery to customers has occurred or services are rendered;
(iii) the fee is fixed or determinable; and
(iv) collection of the fees is reasonably assured.

The Company considers a signed agreement or other similar documentation to be persuasive evidence of an arrangement. Collectability is assessed based on a number of factors, including transaction history and the creditworthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash.

The Company applies the provisions of Financial Accounting Standards Board ("FASB") ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (formerly EITF Issue No. 08-01, Revenue Arrangements with Multiple Deliverables) with respect to its multiple-element arrangements entered into or significantly modified on or after January 1, 2011.

Event Cloud Revenue

Event Management

The Company generates the majority of its revenue through Software-as-a-Service ("SaaS") subscriptions to the event and conference management platform, pricing for which is subject to the features and functionality selected by the customer. No features or functionality within the subscription-based services have stand-alone value apart from one another and, therefore, the entire subscription fee is recognized on a straight-line basis over the term of the subscription arrangement.

SaaS subscriptions may include functionality that enables customers to manage the registration of participants attending the customer's event or events. In some cases, the negotiated fee for the subscription is based on a maximum number of event registrations permitted over the subscription term. At any time during the subscription term, customers may elect to purchase blocks of additional registrations, which are referred to as subscription up-sells. The fees associated with the up-sells are added to the original subscription fee, and the revenue is recognized over the remaining subscription period. No portion of the subscription fee is refundable regardless of the actual number of registrations that occur, or the extent to which other features and functionality are used.

Mobile Apps

Subscription-based solutions also include the sale of mobile event apps. The revenue for mobile event apps solutions is generally recognized on a straight-line basis over the life of the contract. A customer may use a singular mobile event app for any number of events. At any time during the subscription term, customers may elect to purchase additional mobile event apps, which are referred to as mobile up-sells. The fees associated with the up-sells are added to the original subscription fee, and the revenue is recognized over the remaining subscription period. No portion of the subscription fee is refundable.

Onsite Event Solutions

Event specific onsite solutions include the rental of equipment and consultants needed to successfully manage and execute a complex event. When these services are sold on a stand-alone basis revenue is recognized based on the contractual stated value after the delivery of the services has been fully completed. When these services are bundled with other subscription-based services, revenue is recognized ratably over the contract term.

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Hospitality Cloud Revenue

Marketing Solutions Revenue
The Hospitality Cloud is branded to provide a full spectrum of cloud-based solutions across the hotel group sales lifecycle. Prior to this, the Company primarily concentrated on servicing the hospitality sector with marketing solutions through the Cvent Supplier Network ("CSN"), which provided substantially all of the revenue for this product line in 2015 and before. Marketing solutions revenue is generated through the delivery of various forms of advertising sold through annual or multi-year contracts to marketers, principally hotels and venues. Such solutions include prominent display of a customer's venue within the Cvent Supplier Network, the Cvent Destination Guide, the Elite Meetings magazine or in various electronic newsletters. Pricing for the advertisements is based on the term of the advertisement, targeted geography, number of advertisements and prominence of the ad placement.
The Company enters into arrangements with multiple deliverables that generally include various marketing solutions that may be sold individually or bundled together and delivered over various periods of time. In such situations, the Company applies the provisions of FASB, Accounting Standards Codification ("ASC"), No. 605-25, Revenue Recognition – Multiple Element Arrangements to account for the various elements within the marketing solution agreements delivered over the platform. Under such guidance, in order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately and revenue is recognized ratably over the contractual period that the related advertising deliverable is provided. Annual marketing solutions on the Cvent Supplier Network are often sold separately, and, as such, all have standalone value.
Certain one-time marketing solutions, which can run for a month, several months, or a year, are primarily sold in a package. In determining whether the marketing solutions sold in packages have standalone value, the Company considers the availability of the services from other vendors, the nature of the solutions, and the contractual dependence of the solutions to the rest of the package.
Revenue arrangements with multiple deliverables are divided into separate units of accounting and the arrangement consideration is allocated to all deliverables based on the relative selling price method. In such circumstances, the Company uses the selling price hierarchy of: (i) vendor-specific objective evidence, or VSOE, if available, (ii) third-party evidence of selling price, or TPE, and (iii) best estimate of selling price. VSOE is limited to the price charged when the same element is sold separately by the Company. Due to the unique nature of some multiple deliverable revenue arrangements, the Company may not be able to establish selling prices based on historical stand-alone sales using VSOE or TPE; therefore the Company may use its best estimate to establish selling prices for these arrangements. The Company establishes the best estimates within a range of selling prices considering multiple factors including, but not limited to, factors such as size of transaction, customer demand and price lists.
(g) Deferred Revenue
Deferred revenue consists of contractual billings or payments received in advance of revenue recognition and for which the underlying contract term has commenced from Event Cloud services or Hospitality Cloud solutions that are subsequently recognized when the revenue recognition criteria are met.
(h) Business Combinations
The Company is required to allocate the purchase price of acquired companies to the identifiable tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. This allocation and valuation require management to make significant estimates and assumptions, specifically with respect to the value of long-lived and intangible assets.
Critical estimates in valuing intangible assets include but are not limited to estimates about: future expected cash flows from customer contracts, customer lists, distribution agreements, proprietary technology and non-competition agreements; the acquired company's brand awareness and market position, assumptions about the period of time the brand will continue to be used in the Company's product portfolio; as well as expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when

completed, and discount rates. The Company’s

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estimates of fair value are based upon assumptions the Company believes to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company continues to evaluate these items quarterly and record any adjustments to the preliminary estimates to goodwill provided that the Company is within the measurement period. Subsequent to the measurement period, changes to these uncertain tax positions and tax related valuation allowances will affect the Company's provision for income taxes in the consolidated statement of operations in the current period.

Other estimates associated with the accounting for these acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed. Costs incurred related to acquisitions are expensed as incurred.

(i) Goodwill

Goodwill represents the excess of: (i) the aggregate of the fair value of consideration transferred in a business combination, over (ii) the fair value of assets acquired, net of liabilities assumed. Goodwill is not amortized, but is subject to annual impairment tests. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is estimated using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two is not performed.

In September 2011, the FASB issued ASU 2011-8, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test.

The Company performs its annual impairment review of goodwill on November 30 and when a triggering event occurs between annual impairment tests. There was a subsequent triggering event that occurred on April 17, 2016 when the Company entered into a merger agreement with Vista Funds (see note 9). This triggering event confirmed that the Company's goodwill balance was not impaired.

(j) Capitalized Software Development Costs

Costs to develop software directly used in the delivery of revenue generating activities are capitalized and recorded as capitalized software in accordance with the provisions of FASB ASC Subtopic 350-40, Intangibles-Goodwill and Other Subtopic 40 Internal-Use Software on the balance sheet. These costs are amortized on a project-by-project basis using the straight-line method over the estimated economic life of the application, which is generally three years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary development stage, as well as maintenance, minor enhancements and training costs are expensed as incurred.

(k) Deferred Tax Assets and Liabilities

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not considered to be more likely than not that a deferred tax asset will be realized, a valuation allowance is

established. The Company applies the provisions of ASC Subtopic 740-10, Income Taxes—Overall, which provides guidance related to the accounting for uncertain tax positions. In accordance with ASC 740, the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained upon examination. The years ended December 31, 2013 through December 31, 2015 are open tax years for IRS examination. The year ended December 31, 2012 was reopened for examination by virture of filing a carryback claim during the year ended December 31, 2015.



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(l) Stock-Based Compensation

The Company accounts for its employee stock-based compensation awards in accordance with FASB ASC Topic 718, Compensation—Stock Compensation. ASC Topic 718 requires that all employee stock-based compensation is recognized as a cost in the financial statements and that for equity-classified awards, such cost is measured at the grant date fair value of the award. The Company estimates grant date fair value for stock options using the Black-Scholes option-pricing model. The Company estimates grant date fair value for restricted stock units based on the closing price of the underlying shares on grant date.

Determining the fair value of stock options under the Black-Scholes model requires judgment, including estimated volatility, risk free rate, expected term and estimated dividend yield. The assumptions used in calculating the fair value of stock-based compensation awards represent the Company's best estimates, based on management judgment. The estimated dividend yield is zero since the Company has not issued dividends to date and does not anticipate issuing dividends. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with an equivalent remaining term. Due to its limited trading history, the Company estimates volatility for option grants by evaluating the average historical volatility of a peer group of similar public companies. The expected term of the Company's stock options represent the period that its stock-based awards are expected to be outstanding. For purposes of determining the expected term, the Company applies the simplified approach, in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award. Awards generally vest over a service period of four years, with a maximum contractual term of ten years.

Pursuant to FASB ASC Subtopic 718-10-35, Stock Compensation, the initial determination of compensation cost is based on the fair value of the number of stock options granted, amortized over the vesting period. With the adoption of ASU 2016-09 (see Note 3), the Company no longer estimates its forfeiture rate in order to record stock compensation expense. Under ASU 2016-09 the Company now records the impact of forfeitures on stock compensation expense in the period the forfeitures occur. Compensation expense related to stock options is recognized using the straight-line attribution method. Compensation cost for restricted stock units is measured at the fair value of the underlying shares on grant date and recognized on a straight-line basis over the vesting period.

(m) Foreign Currency

The Company's foreign subsidiary in India designates the U.S. dollar as the functional currency. For the subsidiary, assets and liabilities denominated in foreign currency are remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities and historical exchange rates for nonmonetary assets and liabilities. Foreign currency gains and losses associated with remeasurement are included in (gains) losses from foreign currency transactions in the consolidated statements of operations.

Foreign currency (gains) losses associated with transactions and remeasurement were $(0.3) million and $(0.3) million for the three and nine months ended September 30, 2016, respectively, and $1.5 million and $2.3 million for the three and nine months ended September 30, 2015, respectively.

(n) Non-Monetary Transactions

The Company occasionally participates in non-monetary transactions with its customers in exchange for marketing and other services. In accordance with FASB ASC Topic 845 – Nonmonetary transactions, non-monetary transactions with commercial substance are recorded at the estimated fair value of the services received from or provided to the counterparty, whichever is more clearly evident. In certain periods there are timing differences between the revenue and the related expense, due to the timing of delivery and receipt of services. Non-monetary transaction revenue totaled $0.7 million and $3.0 million for the three and nine months ended September 30, 2016, respectively, and $1.1 million and $4.4 million for the three and nine months ended September 30, 2015, respectively. Non-monetary transaction expense totaled $0.5 million and $2.9 million for the three and nine months ended September 30, 2016, respectively, and $0.7 million and $4.6 million for the three and nine months ended September 30, 2015, respectively.

3. New Accounting Pronouncements

Adopted

In March 2016, the FASB issued an amendment to ASC Topic 718, Compensation-Stock Compensation. ASU 2016-09, Compensation-Stock Compensation (Topic 718), simplifies several aspects of the accounting for stock-based compensation, including accounting for income taxes, forfeitures, statutory tax withholding requirements and

classification in the statement of

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cash flows. Primarily, this ASU eliminates the Additional Paid-In Capital pool ("APIC pool") concept and reduces the complexity in accounting for excess tax benefits and tax deficiencies. Under the new guidance, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. In addition, under the new guidance, a company may make a policy election to either estimate the number of stock awards that are expected to vest or account for forfeitures as they occur. This amendment would have become effective for the Company in the first quarter of 2017. However, the Company early adopted this standard on a prospective basis in the first quarter of 2016 and elected to account for forfeitures as they occur. The adoption of this standard required the Company to record a cumulative-effect adjustment to address historical forfeiture rate estimates for stock-based awards that were unvested as of December 31, 2015. The cumulative-effect adjustment was recorded in the first quarter and resulted in an offsetting entry to Additional Paid-in Capital and Retained Earnings of $1.4 million, resulting in no net impact on Total Stockholders' Equity.

In November 2015, the FASB issued an amendment to ASC Topic 740: Income Taxes. ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”), which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. This amendment may be applied either prospectively, or retrospectively to all periods presented. The Company adopted the provisions of ASU 2015-17 prospectively in the fourth quarter of 2015, and did not retrospectively adjust the prior periods. The adoption of this ASU simplifies the presentation of deferred income taxes and reduces complexity without decreasing the usefulness of information provided to users of financial statements. The adoption of ASU 2015-17 did not have a significant impact on our financial position, results of operations, and cash flows.

In September 2015, the FASB issued an amendment to ASC Topic 805: Business Combinations. ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments, simplifies the accounting for measurement period adjustments by requiring companies to recognize adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to adoption, these measurement period adjustments were required to be recorded as retrospective adjustments to the provisional amounts recognized at the acquisition date with a corresponding adjustment to Goodwill. This amendment became effective for the Company in the first quarter of 2016. The adoption of ASU 2015-16 did not have a significant impact on our financial position, results of operations, and cash flows.

Pending/ Under Review

In August 2016, the FASB issued an amendment to ASC Topic 230: Statement of Cash Flows. ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides specific guidance for the classification of certain cash receipts and cash payments in the statement of cash flows. Specifically, this guidance addresses the classification of contingent consideration payments made after a business combination, debt prepayment or debt extinguishment costs and distributions received from equity method investees, as well as other specific cash receipts and cash payments. Under current U.S. GAAP, there is no clarity regarding how these cash receipts and cash payments should be classified in the statement of cash flows, which led to diversity in practice. This amendment will become effective for the Company in the first quarter of 2018, although earlier adoption is permitted for financial statements have not been issued. Management is currently assessing the effect the adoption of this standard will have on the Company's consolidated financial statements.

In February 2016, the FASB issued an amendment to ASC Topic 840: Leases. ASU 2016-02, Leases (Topic 842), which conforms the treatment for all leases by requiring the lessees to recognize the lease assets and lease liabilities that arise from substantially all leases in the statement of financial position and to disclose qualitative and quantitative information about leases. Under current U.S. GAAP, leases designated as operating leases rather than capital leases are not reflected on the balance sheet. This amendment will become effective for the Company in the first quarter of 2019, although earlier adoption is permitted for financial statements that have not been issued. Management is currently assessing the effect the adoption of this standard will have on the Company's consolidated financial

statements.

In May 2014, the FASB and the International Accounting Standards Board issued joint guidance to improve and converge the financial reporting requirements for revenue from contracts with customers. ASU 2014-09, Revenue from Contracts with Customers, prescribes a five-step model for revenue recognition that will replace most existing revenue recognition guidance under U.S. GAAP. The new standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP, and requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. In August 2015, the FASB issued



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ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for the Company to be the first quarter of 2018. Early adoption is permitted for the Company, but only as of the first quarter of 2017. Management is still evaluating which adoption method it will use, the timing of its adoption and assessing the effect the adoption of this standard will have on the Company's consolidated financial statements.

4. Net (Loss) Income Per Share

The Company calculates basic net (loss) income per share of common stock by dividing net (loss) income for the period by the weighted-average number of shares of common stock outstanding during the period. The Company calculates diluted net (loss) income per share by dividing net (loss) income attributable to the Company for the period by the weighted-average number of shares of common stock outstanding during the period, plus any dilutive effect of share-based equity awards during the period, using the treasury stock method.

The computation of basic and diluted net (loss) income per share is as follows (in thousands, except share and per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net (loss) income | $(5,578) | $ 781 | $(12,443) | $ (7,246) |
| Weighted average number of shares outstanding: | | | | |
| Weighted average common shares outstanding for basic earnings per share | 42,411,874 | 41,723,667 | 42,239,081 | 41,512,189 |
| Weighted average common shares outstanding for diluted earnings per share | 42,411,874 | 43,481,392 | 42,239,081 | 41,512,189 |
| Net (loss) income per share: | | | | |
| Basic | $(0.13) | $ 0.02 | $(0.29) | $ (0.17) |
| Diluted | $(0.13) | $ 0.02 | $(0.29) | $ (0.17) |

The weighted average number of shares outstanding used in the computation of diluted loss per share does not include the effect of the following stock options and restricted stock units because their effect would have been anti-dilutive:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Anti-dilutive: stock options and restricted stock units | 1,827,709 | — | 1,686,172 | 1,845,929 |

5. Income Taxes

The Company generally estimates its annual effective tax rate for the full fiscal year and applies that rate to its income from continuing operations before income taxes in determining its provision for income taxes for the respective periods. The Company generally records discrete items in each respective period as appropriate. However, if a company is unable to reliably estimate its annual effective tax rate, then the actual effective tax rate for the year-to-date period may be the best estimate for the annual effective tax rate. For the three and nine months ended September 30, 2016 and the comparable periods in 2015, the Company determined that the annual rate method would not provide for a reliable estimate due to volatility in the forecasting process. As a result, the effective tax rate for the three and nine month periods ended September 30, 2016 and 2015 was calculated based on an actual effective tax rate, (the "cut-off" method), plus discrete items.

The Company’s consolidated effective tax rate for the three and nine months ended September 30, 2016 was a provision of 18.7% and 26.1%, respectively. The Company’s consolidated effective tax rate for the three and nine months ended September 30, 2015 was a benefit of 5.5% and 8.8%, respectively.

The Company’s estimated effective tax rate is subject to fluctuation based upon the level and mix of earnings and losses by tax jurisdiction, and the relative impact of permanent book to tax differences (e.g., non-deductible expenses). As a result of these factors, and due to potential changes in the Company’s period to period results, fluctuations in the Company’s effective tax rate and respective tax provisions or benefits may occur. The Company is subject to U.S.

federal income tax, various state income taxes and various foreign income taxes.

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Management believes the Company will achieve profitable operations in future years that will enable the Company to recover the benefit of its U.S. net deferred tax assets. However, the Company does not have sufficient objective evidence to support the future use of U.S. deferred tax assets and certain deferred tax assets related to foreign tax credits, and accordingly, established a valuation allowance against these deferred tax assets as required by generally accepted accounting principles. Recording this valuation allowance does not impact the Company's ability to realize the benefit of this asset.

The Company permanently reinvests cumulative undistributed earnings of its non-U.S. subsidiaries in non-U.S. operations. U.S. federal income taxes have not been provided for in relation to undistributed earnings to the extent that they are permanently reinvested in the Company's non-U.S. operations. As of September 30, 2016, the undistributed earnings of the Company's foreign affiliates was $19.2 million.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense when assessed.

6. Stock-Based Compensation

Stock Options

Stock options are granted with an exercise price equal to the stock's fair value at the date of grant. The awards vest at various times from the date of grant, with most options vesting in tranches generally over four years. All options expire ten years after the date of grant. At September 30, 2016, there were 7,047,504 shares available for the Company to grant under the 2013 Equity Incentive Plan.

The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions for 2016 grants are provided in the table below. Because the Company's shares were not publicly traded prior to August 9, 2013 and its shares were rarely traded privately, and due to the limited trading history since August 9, 2013, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. Similarly, due to the Company's limited trading history, the expected term is calculated using the simplified method, which is an average of the respective options' remaining contractual term and their expected vesting dates. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant. Expense is recognized using the straight-line attribution method.

The Company granted no stock-based awards during the three months ended September 30, 2016. The following is a summary of the weighted average assumptions used in the valuation of stock-based awards under the Black-Scholes model:

| | Nine Months Ended September 30, 2016 | |
|---|---|---|
| Dividend yield | 0.00 | % |
| Volatility | 41.81 | % |
| Expected term (years) | 6.28 | |
| Risk-free interest rate | 1.52 | % |

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Stock option activity during the periods indicated is as follows:

| | Number of shares subject to options | Weighted average exercise price per share | Weighted average remaining contractual term (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| Balance at December 31, 2015 | 4,127,395 | $ 18.60 | 7.57 | $ 67,323 |
| Granted | 1,081,815 | 21.75 | | |
| Exercised | (332,814 ) | 12.46 | | |
| Forfeited | (196,139 ) | 25.35 | | |
| Expired | (3,067 ) | 23.59 | | |
| Balance at September 30, 2016 | 4,677,190 | $ 19.48 | 7.57 | $ 57,216 |
| Exercisable at September 30, 2016 | 1,643,467 | $ 9.76 | 5.68 | $ 36,081 |

The weighted average grant date fair value of options granted during the nine months ended September 30, 2016 was $9.31. The total intrinsic value of options exercised during the nine months ended September 30, 2016 was $6.7 million.

The Company recorded stock-based compensation expense related to options of $2.6 million and $1.7 million during the three months ended September 30, 2016 and 2015, respectively, and $7.2 million and $5.1 million during the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, there was $25.2 million of total unrecognized compensation cost related to unvested stock options granted under the Plan, which is expected to be recognized over a weighted average period of 2.60 years.

Restricted Stock Units

During the nine months ended September 30, 2016, the Company issued restricted stock units (RSUs) to employees. RSU activity during the periods indicated is as follows:

| | Number of shares subject to restriction | Weighted average share value | Weighted average remaining contractual term (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| Balance at December 31, 2015 | 902,876 | $ 28.49 | 1.77 | $ 31,519 |
| Granted | 463,613 | 21.75 | | |
| Vested | (178,912 ) | 29.47 | | |
| Forfeited | (57,355 ) | 26.57 | | |
| Balance at September 30, 2016 | 1,130,222 | $ 25.67 | 1.63 | $ 35,840 |

The related compensation expense for restricted stock units recognized during the three months ended September 30, 2016 and 2015 was $2.1 million and $1.2 million, respectively, and $6.0 million and $3.3 million for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, there was $22.7 million of total unrecognized compensation cost related to unvested RSUs granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.79 years.

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7. Stockholders' Equity

Changes in Stockholders' Equity

Changes in stockholders' equity for the nine months ended September 30, 2016 were as follows (in thousands, except share amounts):

| | Common Stock Shares | Common Stock Amount | Treasury Stock | Additional Paid-In Capital | Accumulated other comprehensive loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2015 | 42,523,229 | $ 43 | $ (3,966) | $ 218,493 | $ (274) | $ (40,015) | $ 174,281 |
| Cumulative-effect adjustment | — | — | — | 1,421 | — | (1,421) | — |
| Balance as of December 31, 2015, as adjusted | 42,523,229 | 43 | (3,966) | 219,914 | (274) | (41,436) | 174,281 |
| Net loss | — | — | — | — | — | (12,443) | (12,443) |
| Stock-based compensation expense | — | — | — | 13,235 | — | — | 13,235 |
| Exercise of stock options | 332,814 | — | — | 4,139 | — | — | 4,139 |
| Vesting of restricted stock awards | 178,912 | — | — | — | — | — | — |
| Foreign currency translation loss | — | — | — | — | (639) | — | (639) |
| Balance as of September 30, 2016 | 43,034,955 | $ 43 | $ (3,966) | $ 237,288 | $ (913) | $ (53,879) | $ 178,573 |

The cumulative effect adjustment is related to our adoption of ASU 2016-09, Compensation-Stock Compensation (Topic 718), in the first quarter of 2016.

8. Commitments and Contingencies

a) Legal Proceedings, Regulatory Matters and Other Contingencies

From time to time, the Company may become involved in legal proceedings, regulatory matters or other contingencies in the ordinary course of its business. The Company is not presently involved in any legal proceeding, regulatory matter or other contingency that, if determined adversely to it, would individually or in the aggregate have a material adverse effect on its business, operating results, financial condition or cash flows.

b) Acquisition Payouts

A summary of the changes in the recorded amount of accrued compensation and deferred consideration from acquisitions from December 31, 2015 to September 30, 2016 is as follows (dollars in thousands):

| | Compensation | Deferred Consideration | Total |
|---|---|---|---|
| Liability as of December 31, 2015 | $ 375 | $ 2,490 | $ 2,865 |
| Payments | — | — | — |
| Additional accruals | 1,431 | — | 1,431 |
| Liability as of September 30, 2016 | $ 1,806 | $ 2,490 | $ 4,296 |

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The accrued compensation and consideration related to acquisition payouts is recorded within accrued and other current liabilities on the accompanying consolidated balance sheets.

9. Pending Merger with Vista Funds

Submission of Matters to a Vote of Securities Holders

On July 12, 2016, the Company held a special meeting of stockholders (the “Special Meeting”) at Cvent’s principal executive offices in Tysons Corner, Virginia to vote on the proposals described in the Company’s definitive proxy statement filed with the Securities and Exchange Commission on June 9, 2016 and first mailed to Cvent’s stockholders on June 10, 2016. At the Special Meeting, stockholders approved the proposal to adopt the Agreement and Plan of Merger, dated as of April 17, 2016 (the “Merger Agreement”) by and among Cvent, Papay Holdco, LLC (“Parent”), and Papay Merger Sub, Inc. (“Merger Sub”), pursuant to which Merger Sub will merge with and into Cvent (the “Merger”), and Cvent will become a wholly owned subsidiary of Parent.

As previously disclosed in the Form 10-Q filed on August 5, 2016, on June 30, 2016, each of Cvent and the Vista Funds (the “parties”) received a request for additional information and documentary material, commonly referred to as a “Second Request,” from the U.S. Department of Justice (the “DOJ”) in connection with the Merger, which extends the waiting period applicable to the consummation of the Merger until the 30th day after substantial compliance by Cvent and the Vista Funds with the “Second Request,” unless the waiting period is extended voluntarily by the parties or terminated sooner by the DOJ.

On September 12, 2016, the parties entered into a timing agreement with the DOJ under which the parties agreed (i) to substantially comply with the Second Request on a planned schedule and (ii) not to consummate the Merger until 60 days after the parties substantially comply with the Second Request. The parties substantially complied with the Second Request on September 23, 2016 and therefore cannot consummate the Merger before November 22, 2016. The parties expect the Merger to be completed in the fourth quarter of this year.

On October 17, 2016, the parties mutually agreed to extend the termination date specified in the Merger Agreement until April 17, 2017. No other provisions of the Merger Agreement were otherwise amended or waived, and the Merger Agreement remains in full force and effect. As disclosed at that time, the Merger is subject to certain conditions, including, without limitation, the expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and approval under the antitrust and competition laws of Austria. The Merger has been cleared by competition authorities in Austria.

At the effective time of the Merger, each share of common stock, par value $0.001 per share, of the Company issued an outstanding as of immediately prior to the effective time will be canceled and extinguished and automatically converted into the right to receive cash in an amount equal to $36.00 per share, without interest thereon.

The Company has recorded $4.7 million and $6.0 million in transaction costs in general & administrative expenses related to this transaction during the three and nine months ended September 30, 2016.

10. Subsequent Events

The Company has evaluated subsequent events through November 2, 2016, the date the financial statements were available to be issued.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015, as amended. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K (as updated in our Quarterly Report on Form 10-Q filed on May 5, 2016). The words "may," "believe," "could," "anticipate," "would," "migh "plan," "expect," "will," "intend," "potential," "objective," "strategy," "goal," "should," "vision," "designed," and similar expr negative of these terms are intended to identify forward-looking statements. Consolidated financial data referenced in this section as of and for the three and nine months ended September 30, 2016 and 2015 are derived from our unaudited consolidated financial statements. The unaudited consolidated financial data as of and for the three and nine months ended September 30, 2016 and 2015 includes all adjustments, consisting of normal recurring accruals, that are necessary in the opinion of our management for a fair presentation of our financial position and results of operations for these periods.

Overview

We are a leading cloud-based enterprise event management company, with approximately 16,000 customers worldwide. We provide solutions for both sides of the corporate events and meetings ecosystem: (i) event and meeting planners, through our Event Cloud, and (ii) hoteliers and venues, through our Hospitality Cloud. Our integrated, cloud-based solution addresses the entire event lifecycle by allowing event and meeting planners to automate and streamline the process of planning, organizing and executing successful events for organizations of all sizes and industries. Our online marketplace connects event planners and venues through our vertical search engine that accesses our proprietary database of detailed venue information. The combination of these cloud-based solutions creates an integrated platform that allows us to generate revenue from both sides of the meetings and events ecosystem.

Our meeting and event planner customers include enterprises such as corporations, associations, not-for-profits, government agencies and universities. These customers enter into annual and multi-year subscription contracts to utilize part or all of our cloud-based software solutions to plan, manage and execute enterprise events and meetings including external events, such as conferences, tradeshows, and customer events, as well as internal events, such as sales meetings, training seminars and team-building events. Revenue from our Event Cloud was $39.6 million and $117.1 million for the three and nine months ended September 30, 2016, or 70% and 69% of our total revenue during the respective period, and $33.7 million and $94.7 million for the three and nine months ended September 30, 2015, or 70% and 69% of our total revenue during the respective period. We generally recognize revenue from these contracts ratably over the term of the contract.

On the other side of the event ecosystem, hoteliers and venues primarily utilize our Hospitality Cloud solutions to generate more visibility with ready-to-transact event and meeting planners. Our largest online marketplace, the Cvent Supplier Network, or CSN, connects tens of thousands of event and meeting planners seeking the best venue for their event with approximately 240,000 venues in our proprietary database. We believe that CSN contains the world's largest and most accurate searchable database of detailed meeting venue information with listings of hotels, conference centers, convention centers, resorts, restaurants, museums, country clubs, wineries, castles and other special event venues in more than 175 countries. Hotels and venues enter into annual and multi-year advertising contracts with us for marketing solutions that increase the prominence of their properties in CSN; we recognize the revenue from these marketing solutions over the term of the agreement based on the estimated selling prices of each solution. The CSN is available with the same functionality to users of our paid subscription event and meeting platform solutions as well as to event and meeting planners that simply visit the CSN site and establish a free user account. All of these users have the ability to submit RFPs to hotels and venues free of charge using the CSN. Revenue from our Hospitality Cloud was $17.1 million and $51.5 million for the three and nine months ended September 30, 2016, or 30% and 31% of our total revenue during the respective period, and $14.6 million and $42.1

million for the three and nine months ended September 30, 2015, or 30% and 31% of our total revenue during the respective period. We generally recognize revenue from these contracts ratably over the term of the contract.



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Pending Merger with Vista Funds

Submission of Matters to a Vote of Securities Holders

On July 12, 2016, the Company held a special meeting of stockholders (the "Special Meeting") at Cvent's principal executive offices in Tysons Corner, Virginia to vote on the proposals described in the Company's definitive proxy statement filed with the Securities and Exchange Commission on June 9, 2016 and first mailed to Cvent's stockholders on June 10, 2016. At the Special Meeting, stockholders approved the proposal to adopt the Agreement and Plan of Merger, dated as of April 17, 2016 (the "Merger Agreement") by and among Cvent, Papay Holdco, LLC ("Parent"), and Papay Merger Sub, Inc. ("Merger Sub"), pursuant to which Merger Sub will merge with and into Cvent (the "Merger"), and Cvent will become a wholly owned subsidiary of Parent. Parent and Merger Sub (the "Vista Funds") are affiliates of Vista Equity Partners. A total of 33,188,807 shares (78.51% of the 42,274,822 shares outstanding and entitled to vote as of June 8, 2016, the record date for the Special Meeting), present in person or by proxy, constituted a quorum for the transaction of business and were voted at the Special Meeting. Since there were sufficient votes cast at the Special Meeting to adopt the Merger Agreement, a second proposal to adjourn the Special Meeting, if needed or appropriate, to solicit additional proxies was rendered moot.

The table below shows the final voting results from the Special Meeting.

| | For | Against | Abstain |
|---|---|---|---|
| Proposal 1 - The Merger Proposal | 33,171,932 | 15,967 | 908 |

The proposal to approve the Merger received the affirmative vote of approximately 78.47% of the shares of Cvent common stock outstanding and entitled to vote thereon. We also noted that 99.9% of the Cvent stockholders that voted approved the proposal to adopt the agreement and plan of merger with affiliates of Vista Equity Partners.
As previously disclosed in the Form 10-Q filed on August 5, 2016, on June 30, 2016, each of Cvent and the Vista Funds (the "parties") received a request for additional information and documentary material, commonly referred to as a "Second Request," from the U.S. Department of Justice (the "DOJ") in connection with the Merger, which extends the waiting period applicable to the consummation of the Merger until the 30th day after substantial compliance by Cvent and the Vista Funds with the "Second Request," unless the waiting period is extended voluntarily by the parties or terminated sooner by the DOJ.
On September 12, 2016, the parties entered into a timing agreement with the DOJ under which the parties agreed (i) to substantially comply with the Second Request on a planned schedule and (ii) not to consummate the Merger until 60 days after the parties substantially comply with the Second Request. The parties substantially complied with the Second Request on September 23, 2016 and therefore cannot consummate the Merger before November 22, 2016. The parties expect the Merger to be completed in the fourth quarter of this year.
On October 17, 2016, the parties mutually agreed to extend the termination date specified in the Merger Agreement until April 17, 2017. No other provisions of the Merger Agreement were amended or waived, and the Merger Agreement remains in full force and effect. As disclosed at that time, the Merger is subject to certain conditions, including, without limitation, the expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and approval under the antitrust and competition laws of Austria. The Merger has been cleared by competition authorities in Austria.
At the effective time of the Merger, each share of common stock, par value $0.001 per share, of the Company, issued and outstanding as of immediately prior to the effective time will be canceled and extinguished and automatically

converted into the right to receive cash in an amount equal to $36.00 per share, without interest thereon.
The Company has recorded $4.7 million and $6.0 million in transaction costs related to this transaction during the three and nine months ended September 30, 2016, respectively.

Financial Operations Overview

Revenue

Event Cloud. We generate the majority of our revenue through subscriptions for our event and conference management solutions platform, pricing for which is based on the features and functionality selected. Our Enterprise solution is targeted towards the large enterprise market, and includes the full functionality of our platform. Our Event & Conference Management solution, which is targeted towards mid-market and smaller enterprises, has many of the same features as our Enterprise solution but does not include some of the advanced features and functionality required by larger organizations. The number of

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attendee registrations available to customers subscribing to the registration functionality is contractually fixed, and registrations above the contracted amount result in additional fees paid by the customer.

Our customer contracts are typically not cancellable without cause and typically range in length from one to four years. We generally recognize revenue from Event Cloud subscriptions ratably over the term of the agreement. Customers are typically invoiced in advance on an annual or quarterly basis. Amounts that have been contractually invoiced are initially recorded as deferred revenue and are recognized as revenue ratably over the subscription period. We refer to contractual amounts that have not been invoiced (or for which the underlying contract term has not commenced) as unbilled contract value. Unbilled contract value is not reflected in our consolidated financial statements.

Event Cloud subscription revenue also includes revenue from our onsite event solutions, mobile event apps and web survey products. Our Enterprise solutions and our mobile event apps are the fastest growing products within our business.

Hospitality Cloud. We branded the Hospitality Cloud to provide a full spectrum of cloud-based solutions across the hotel group sales lifecycle. However, substantially all Hospitality Cloud revenue is still generated through our group marketing solutions. Prior to this, we primarily concentrated on servicing the hospitality sector with marketing solutions through our CSN, which provided substantially all of the revenue for this product line in 2015 and prior. Marketing solutions revenue is generated through the delivery of various forms of advertising sold through annual or multi-year contracts to marketers, principally hotels and venues. Such solutions include prominent display of a customer’s venue within CSN, the Cvent Destination Guide, the Elite Meetings magazine or in various electronic newsletters. Pricing for the advertisements is based on the prominence of the ad placement, term of the advertisement, targeted geography and number of advertisements.

We generally recognize the revenue from these marketing solutions over the period the advertisements are delivered. Customer contracts are typically not cancellable without cause and typically range in length from one to two years. We generally invoice our customers in advance in annual installments. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized as revenue over the contract period. Contractual amounts that have not been invoiced (or for which the underlying contract term has not commenced), which we refer to as unbilled contract value, are not reflected in our consolidated financial statements.

Cost of Revenue

Cost of revenue primarily consists of employee-related expenses, including salaries, benefits, bonuses and stock-based compensation, related to providing support and hosting our applications, costs of data center capacity, software license fees and amortization expense associated with capitalized software. In addition, we allocate a portion of overhead, such as rent, information technology costs, and depreciation and amortization to cost of revenue based on head count. We are invested in our customers' success and as such, we will continue to invest in providing support, expanding our capacity to support our growth and developing new features to enhance our existing products. In the near-term, this will result in higher cost of revenue in absolute dollars, but we expect that in future periods cost of revenue will remain relatively consistent as a percentage of revenue.

Gross Profit and Gross Margin

Gross profit is total revenue less total cost of revenue. Gross margin is gross profit expressed as a percentage of total revenues. We expect that in future periods, our gross margin will remain relatively consistent from period to period.

Operating Expenses

Sales and Marketing

Sales and marketing expenses primarily consist of personnel and related expenses for our sales and marketing staff, including salaries, benefits, bonuses, commissions and stock-based compensation. We expense commissions when they are earned by staff, which is when the customer contract is signed. In addition to staff costs, our cost of marketing includes product marketing and other brand-building activities, such as trade shows, product seminars and online marketing. We also allocate a portion of overhead, such as rent, information technology costs, and depreciation to sales and marketing based on head count.

We intend to continue to invest in sales and marketing and expect spending in these areas to increase in the near-term in absolute dollars as we continue to expand our business both domestically and internationally. We expect sales and

marketing expenses to continue to be among the most significant components of our operating expenses.

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Research and Development
Research and development expenses consist primarily of personnel and related expenses for our research and development staff, including salaries, benefits, bonuses and stock-based compensation and the cost of certain third-party contractors. Research and development expenses, other than software development costs that qualify for capitalization, are expensed as incurred. In addition, we allocate a portion of overhead, such as rent, information technology costs, and depreciation to research and development based on head count.
With the exception of software developed by companies we have acquired, we maintain a unified software code base for our entire platform, which we believe improves the efficiency of our research and development activities. We expect research and development expenses to increase in the near-term in absolute dollars as we expand our product offerings and as a percentage of revenue as we invest in the integration and technological support associated with acquired businesses and technologies.
General and Administrative
General and administrative expenses consist primarily of personnel and related expenses for administrative, finance, legal and human resource staffs, including salaries, benefits, bonuses and stock-based compensation, as well as professional fees, insurance premiums and other corporate expenses. In addition, we allocate a portion of overhead, such as rent, information technology costs, and depreciation to general and administrative based on head count.
In the current quarter, we faced significantly higher legal costs due to the Merger with the Vista Funds. However, over the short-term we expect our general and administrative expenses to decrease in absolute dollars and as a percentage of revenue, as we complete the legal process related to the Merger with the Vista Funds. We also expect to continue to incur expenses related to outside legal counsel, accounting and auditing activities, compliance with public company reporting and corporate governance requirements, insurance requirements and enhancing our internal control environment.
Intangible Asset Amortization, Excluding Cost of Revenue
Intangible asset amortization, excluding cost of revenue, consists entirely of amortization expenses related to acquired customer relationship and trademark intangible assets. This line item excludes intangible asset amortization related to cost of revenue, which is defined as acquired developed technology and capitalized software intangible asset amortization.
We expect our intangible asset amortization, excluding cost of revenue, expenses to increase in absolute dollars and as a percentage of revenue over the short and long-term as we expect to strategically acquire companies to aid in our short and long-term growth.
Critical Accounting Policies and Estimates
Our unaudited consolidated financial statements and the related notes included in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these unaudited consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, cost of revenue, operating expenses, other income and expenses, provision for income taxes and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from our estimates. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between our estimates and our actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. During the nine months ended September 30, 2016, there were no material changes to our critical accounting policies and use of estimates, which are disclosed in our audited consolidated financial statements for the year ended December 31, 2015 included in our Annual Report on Form 10-K dated March 1, 2016, and filed with the SEC.
Adopted
In March 2016, the FASB issued an amendment to ASC Topic 718, Compensation-Stock Compensation. ASU 2016-09, Compensation-Stock Compensation (Topic 718), simplifies several aspects of the accounting for stock-based compensation, including accounting for income taxes, forfeitures, statutory tax withholding requirements and

classification in the statement of cash flows. Primarily, this ASU eliminates the Additional Paid-In Capital pool ("APIC pool") concept and reduces the complexity in accounting for excess tax benefits and tax deficiencies. Under the new guidance, a company recognizes all

excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. In addition, under the new guidance, a company may make a policy election to either estimate the number of stock awards that are expected to vest or account for forfeitures as they occur. This amendment would have become effective for the Company in the first quarter of 2017. However, the Company early adopted this standard on a prospective basis in the first quarter of 2016 and elected to account for forfeitures as they occur. The adoption of this standard required the Company to record a cumulative-effect adjustment to address historical forfeiture rate estimates for stock-based awards that were unvested as of December 31, 2015. The cumulative-effect adjustment was recorded in the first quarter and resulted in an offsetting entry to Additional Paid-in Capital and Retained Earnings of $1.4 million, resulting in no net impact on Total Stockholders' Equity.

In November 2015, the FASB issued an amendment to ASC Topic 740: Income Taxes. ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. This amendment may be applied either prospectively, or retrospectively to all periods presented. We adopted the provisions of ASU 2015-17 prospectively in the fourth quarter of 2015, and did not retrospectively adjust the prior periods. The adoption of this ASU simplifies the presentation of deferred income taxes and reduces complexity without decreasing the usefulness of information provided to users of financial statements. The adoption of ASU 2015-17 did not have a significant impact on our financial position, results of operations, and cash flows.

In September 2015, the FASB issued an amendment to ASC Topic 805: Business Combinations. ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments, simplifies the accounting for measurement period adjustments by requiring companies to recognize adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to adoption, these measurement period adjustments were required to be recorded as retrospective adjustments to the provisional amounts recognized at the acquisition date with a corresponding adjustment to Goodwill. This amendment became effective for the Company in the first quarter of 2016. The adoption of ASU 2015-16 did not have a significant impact on our financial position, results of operations, and cash flows.

Pending/ Under Review

In February 2016, the FASB issued an amendment to ASC Topic 840: Leases. ASU 2016-02, Leases (Topic 842), which conforms the treatment for substantially all leases by requiring the lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about leases. Under current U.S. GAAP, leases designated as operating leases rather than capital leases are not reflected on the balance sheet. This amendment will become effective for the Company in the first quarter of 2019, although earlier adoption is permitted for financial statements that have not been issued. Management is currently assessing the effect the adoption of this standard will have on its consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board issued joint guidance to improve and converge the financial reporting requirements for revenue from contracts with customers. ASU 2014-09, Revenue from Contracts with Customers, prescribes a five-step model for revenue recognition that will replace most existing revenue recognition guidance under U.S. GAAP. The new standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP, and requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for the Company to be the first quarter of 2018. Early adoption is permitted for the Company, but only as of the first quarter of 2017. Management is still evaluating which adoption method it will use, the timing of its adoption and assessing the effect

the adoption of this standard will have on the Company's consolidated financial statements.

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Results of Operations

The following table sets forth selected consolidated statement of operations data for each of the periods indicated.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Revenue | $56,668 | $48,379 | $168,605 | $136,808 |
| Costs of revenue | 16,615 | 14,725 | 47,911 | 43,659 |
| Gross profit | 40,053 | 33,654 | 120,694 | 93,149 |
| Operating expenses: | | | | |
| Sales and marketing | 19,554 | 17,841 | 64,120 | 58,644 |
| Research and development | 12,196 | 5,424 | 34,314 | 15,338 |
| General and administrative | 12,727 | 8,181 | 31,430 | 24,698 |
| Intangible asset amortization, excluding cost of revenue | 737 | 680 | 2,210 | 1,492 |
| (Gains) losses from foreign currency transactions | (253) | 1,467 | (344) | 2,300 |
| Total operating expenses | 44,961 | 33,593 | 131,730 | 102,472 |
| (Loss) income from operations | (4,908) | 61 | (11,036) | (9,323) |
| Interest income | 209 | 679 | 1,167 | 1,800 |
| Other expense | — | — | — | (426) |
| (Loss) income before income taxes | (4,699) | 740 | (9,869) | (7,949) |
| Provision for (benefit from) income taxes | 879 | (41) | 2,574 | (703) |
| Net (loss) income | $(5,578) | $781 | $(12,443) | $(7,246) |

The following table sets forth our consolidated statement of operations data as a percentage of revenue for each of the periods indicated.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | 100 % | 100 % | 100 % | 100 % |
| Costs of revenue | 29 | 30 | 28 | 32 |
| Gross margin | 71 | 70 | 72 | 68 |
| Operating expenses: | | | | |
| Sales and marketing | 35 | 37 | 38 | 43 |
| Research and development | 22 | 11 | 20 | 11 |
| General and administrative | 22 | 17 | 19 | 18 |
| Intangible asset amortization, excluding cost of revenue | 1 | 1 | 1 | 1 |
| (Gains) losses from foreign currency transactions | — | 3 | — | 2 |
| Total operating expenses | 80 | 69 | 78 | 75 |
| (Loss) income from operations | (9) | 1 | (6) | (7) |
| Interest income | — | 1 | 1 | 1 |
| Other expense | — | — | — | — |
| (Loss) income before income taxes | (9) | 2 | (5) | (6) |
| Provision for (benefit from) income taxes | 2 | — | 2 | (1) |
| Net (loss) income | (11)% | 2 % | (7)% | (5)% |

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Comparison of three and nine months ended September 30, 2016 and 2015

Revenue

| | Three months ended September 30, | | Variance | % Change | Nine months ended September 30, | | Variance | % Change |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | | 2016 | 2015 | | |
| Revenue by product: | (dollars in thousands) | | | | | | | |
| Event Cloud | $39,560 | $33,742 | $ 5,818 | 17 % | $117,074 | $94,736 | $22,338 | 24 % |
| Hospitality Cloud | 17,108 | 14,637 | 2,471 | 17 % | 51,531 | 42,072 | 9,459 | 22 % |
| Total revenue | $56,668 | $48,379 | $ 8,289 | 17 % | $168,605 | $136,808 | $31,797 | 23 % |
| Percentage of revenue: | | | | | | | | |
| Event Cloud | 70 % | 70 % | | | 69 % | 69 % | | |
| Hospitality Cloud | 30 % | 30 % | | | 31 % | 31 % | | |
| Total revenue | 100 % | 100 % | | | 100 % | 100 % | | |

Total revenue increased $8.3 million during the three months ended September 30, 2016 compared to the same period in 2015, due to a $10.8 million increase in revenue from sales to new customers and sales by companies acquired since September 30, 2015. Revenue from sales of additional features and functionality to existing customers contributed an additional $3.9 million in revenue for the three months ended September 30, 2016 over the corresponding period in 2015. These amounts were primarily offset by decreases in revenue due to lost customers since September 30, 2015 and the sale of the CrowdTorch business after that date. Included in total revenue for the three months ended September 30, 2016 and September 30, 2015 was $0.7 million and $1.1 million, respectively, of non-monetary revenue derived from trade of service arrangements.

Event Cloud revenue increased $5.8 million during the three months ended September 30, 2016 compared to the same period in 2015, due to a $8.7 million increase in revenue from sales of event planning subscriptions to new customers and sales by companies acquired since September 30, 2015. Revenue from sales of additional features and functionality to existing customers, increased registration usage and price increases contributed an additional $2.2 million in Event Cloud revenue during the three months ended September 30, 2016. These amounts were primarily offset by decreases in revenue due to customers lost since September 30, 2015 and the sale of the CrowdTorch business after that date.

Hospitality Cloud revenue increased $2.5 million during the three months ended September 30, 2016 compared to the same period in 2015, due to an increase of $2.0 million in revenue from sales to new customers. Revenue from sales of additional marketing solutions to existing customers and price increases contributed an additional $1.7 million in revenue during the three months ended September 30, 2016. These amounts were primarily offset by decreases in revenue due to customers lost since September 30, 2015 and decreases in non-monetary revenue.

Total revenue increased $31.8 million during the nine months ended September 30, 2016 compared to the same period in 2015, due to a $33.9 million increase in revenue from sales to new customers and sales by companies acquired since September 30, 2015. Revenue from sales of additional features and functionality to existing customers contributed an additional $14.2 million in revenue for the nine months ended September 30, 2016 over the corresponding period in 2015. These amounts were primarily offset by decreases in revenue due to lost customers since September 30, 2015 and the sale of the CrowdTorch business after that date. Included in total revenue for the nine months ended September 30, 2016 and September 30, 2015 was $3.0 million and $4.4 million, respectively, of non-monetary revenue derived from trade of service arrangements.

Event Cloud revenue increased $22.3 million during the nine months ended September 30, 2016 compared to the same period in 2015, due to a $27.7 million increase in revenue from sales of event planning subscriptions to new customers and sales by companies acquired since September 30, 2015. Revenue from sales of additional features and functionality to existing customers, increased registration usage and price increases contributed an additional $8.0 million in Event Cloud revenue during the nine months ended September 30, 2016. These amounts were primarily offset by decreases in revenue due to customers lost since September 30, 2015 and the sale of the CrowdTorch business after that date.

Hospitality Cloud revenue increased $9.5 million during the nine months ended September 30, 2016 compared to the same period in 2015, due to an increase of $6.2 million in revenue from sales to new customers. Revenue from sales of additional marketing solutions to existing customers and price increases contributed an additional $6.2 million in revenue during the nine months ended September 30, 2016. These amounts were primarily offset by decreases in revenue due to customers lost since September 30, 2015 and decreases in non-monetary revenue.

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We generate the majority of our revenue from North America with revenue from outside North America accounting for 11% of total revenue for the three and nine months ended September 30, 2016 and 2015. In the near term we expect that total revenue from outside North America will increase at the same rate as the rest of our business, in absolute dollars. Therefore, as a proportion of total revenue, we expect total revenue from outside of North America to remain the same.

Cost of Revenue

| | Three months ended September 30, | | Variance | % Change | Nine months ended September 30, | | Variance | % Change |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | | 2016 | 2015 | | |
| | (dollars in thousands) | | | | | | | |
| Cost of revenue | $16,615 | $14,725 | $ 1,890 | 13 % | $47,911 | $43,659 | $ 4,252 | 10 % |
| Percentage of revenue | 29 % | 30 % | | | 28 % | 32 % | | |

Cost of revenue increased by $1.9 million for the three months ended September 30, 2016 compared to the corresponding quarter in 2015. The increase is primarily due to an increase in our headcount and average cost per employee within our software development group for technology to support new and existing functionality on the platform, for our expanded cloud-delivery infrastructure and for integration of new product lines. The headcount cost increases led to $1.6 million in increased expenses in the three months ended September 30, 2016 over the corresponding quarter in 2015, net of software costs capitalized during the period. As a percentage of revenue, cost of revenue decreased slightly in the three months ended September 30, 2016 because cost of revenue increased more slowly than revenue.

Cost of revenue increased by $4.3 million for the nine months ended September 30, 2016 compared to the corresponding period in 2015. The increase is primarily due to an increase in our headcount and average cost per employee within our software development group for technology to support new and existing functionality on the platform, for our expanded cloud-delivery infrastructure and for integration of new product lines. The headcount cost increases led to $4.0 million in increased expenses in the nine months ended September 30, 2016 over the corresponding period in 2015, net of software costs capitalized during the period. As a percentage of revenue, cost of revenue decreased in the nine months ended September 30, 2016 because expenses in this category were considerably higher than normal in the comparable prior year period.

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Operating Expenses

| | Three months ended September 30, | | Variance | % Change | Nine months ended September 30, | | Variance | % Change |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | | 2016 | 2015 | | |
| Operating expenses: | (dollars in thousands) | | | | | | | |
| Sales and marketing | $19,554 | $17,841 | $1,713 | 10 % | $64,120 | $58,644 | $5,476 | 9 % |
| Research and development | 12,196 | 5,424 | 6,772 | 125 % | 34,314 | 15,338 | 18,976 | 124 % |
| General and administrative | 12,727 | 8,181 | 4,546 | 56 % | 31,430 | 24,698 | 6,732 | 27 % |
| Intangible asset amortization, excluding cost of revenue | 737 | 680 | 57 | 8 % | 2,210 | 1,492 | 718 | 48 % |
| (Gains) losses from foreign currency transactions | (253 ) | 1,467 | (1,720 ) | (117 )% | (344 ) | 2,300 | (2,644 ) | (115 )% |
| Total operating expenses | $44,961 | $33,593 | $11,368 | 34 % | $131,730 | $102,472 | $29,258 | 29 % |
| Percentage of revenue: | | | | | | | | |
| Sales and marketing | 35 % | 37 % | | | 38 % | 43 % | | |
| Research and development | 22 % | 11 % | | | 20 % | 11 % | | |
| General and administrative | 22 % | 17 % | | | 19 % | 18 % | | |
| Intangible asset amortization, excluding cost of revenue | 1 % | 1 % | | | 1 % | 1 % | | |
| (Gains) losses from foreign currency transactions | — % | 3 % | | | — % | 2 % | | |
| Total operating expenses | 80 % | 69 % | | | 78 % | 75 % | | |

Sales and Marketing

Sales and marketing expenses increased by $1.7 million for the three months ended September 30, 2016 over the corresponding quarter in 2015. The increase is primarily due to increased headcount both domestically and internationally. Total sales and marketing headcount and average cost per head of our sales and marketing personnel increased from September 30, 2015 to September 30, 2016 to support revenue growth, new product lines and global expansion. The headcount cost increases in the third quarter of 2016 contributed $2.7 million of additional expense. These costs were offset by decreases of $0.5 million in reduced partnership fees and $0.4 million in reduced advertising costs. As a percentage of revenue, sales and marketing expenses decreased slightly in the three months ended September 30, 2016 because sales and marketing expenses increased more slowly than revenue.

Sales and marketing expenses increased by $5.5 million for the nine months ended September 30, 2016 over the corresponding period in 2015. The increase is primarily due to increased headcount both domestically and internationally. Total sales and marketing headcount and average cost per head of our sales and marketing personnel increased from September 30, 2015 to September 30, 2016 to support revenue growth, new product lines and global expansion. The headcount cost increases in the nine months ended September 30, 2016 contributed $6.0 million of additional expense. In addition, stock-based compensation expense increased $1.4 million due primarily to equity grants made to new hires since September 30, 2015. These increases were offset by decreased advertising expenses of $1.3 million. As a percentage of revenue, sales and marketing expenses decreased in the nine months ended September 30, 2016 because sales and marketing expenses increased more slowly than revenue.

Research and Development

Research and development expenses increased by $6.8 million for the three months ended September 30, 2016 over the corresponding quarter in 2015. The increase is primarily due to an increase in our headcount and average cost per employee within our software development group for technology to support new product development and minor new functionality on the platform, for our expanded cloud-delivery infrastructure and for integration of new product lines. The headcount and average cost increases led to $5.0 million in increased expenses in the three months ended September 30, 2016 over the corresponding quarter in 2015, net of software costs capitalized during the period. In

addition, stock-based compensation expense increased

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$0.7 million due primarily to additional equity grants made to existing employees since September 30, 2015. Depreciation and amortization increased by $0.5 million. The remaining increase is the result of increased rent and increased use of outside service providers. As a percentage of revenue, research and development expenses increased in the three months ended September 30, 2016 as spending on the product development of new technologies and the integration of acquired technologies has grown faster than revenue.

Research and development expenses increased by $19.0 million for the nine months ended September 30, 2016 over the corresponding period in 2015. The increase is primarily due to an increase in our headcount and average cost per employee within our software development group for technology to support new product development and minor new functionality on the platform, for our expanded cloud-delivery infrastructure and for integration of new product lines. The headcount and average cost increases led to $13.7 million in increased expenses in the nine months ended September 30, 2016 over the corresponding period in 2015, net of software costs capitalized during the period. In addition, stock-based compensation expense increased $1.9 million due primarily to additional equity grants made to existing employees since September 30, 2015. Depreciation and amortization increased by $0.8 million over the comparable prior period. The remaining increase is the result of increased rent and increased use of outside service providers. As a percentage of revenue, research and development expenses increased in the nine months ended September 30, 2016 as spending on the product development of new technologies and the integration of acquired technologies has grown faster than revenue.

General and Administrative

General and administrative expenses increased by $4.5 million for the three months ended September 30, 2016 as compared to the comparable prior period. The increase was primarily due to the Merger with the Vista Funds, which increased costs by $4.7 million. The increase was also due to increased headcount and increased average cost per employee to manage our growing business. Total headcount and average cost per head related to general and administrative operations increased from September 30, 2015 to September 30, 2016, which contributed $0.6 million of increased personnel and related expenses in the three months ended September 30, 2016. In addition, stock-based compensation increased by $0.5 million due primarily to equity grants made to new hires since September 30, 2015. These increases were offset by the decreased use of professional services firms and other outside services of $1.0 million. As a percentage of revenue, general and administrative expenses increased in the three months ended September 30, 2016 as spending on transaction costs related to the Merger with the Vista Funds have increased significantly.

General and administrative expenses increased by $6.7 million for the nine months ended September 30, 2016 as compared to the comparable prior period. The increase was primarily due to the Merger with the Vista Funds, which increased costs by $6.0 million. The increase was also due to increased headcount and increased average cost per employee to manage our growing business. Total headcount and average cost per employee related to general and administrative operations increased from September 30, 2015 to September 30, 2016, which contributed $2.4 million of increased personnel and related expenses in the nine months ended September 30, 2016. In addition, stock-based compensation increased by $1.5 million due primarily to equity grants made to new hires since September 30, 2015. These increases were offset by the decreased use of professional services firms and other outside services of $2.7 million. As a percentage of revenue, general and administrative expenses increased in the nine months ended September 30, 2016 as spending on transaction costs related to the Merger with the Vista Funds have increased significantly.

Intangible Asset Amortization, Excluding Cost of Revenue

Intangible asset amortization, excluding cost of revenue, increased by $0.1 million for the three months ended September 30, 2016 over the corresponding quarter in 2015. The increase is primarily due to increased intangible assets from acquisition activity as we continue to strategically acquire companies to aid in our long-term growth.

Intangible asset amortization, excluding cost of revenue, increased by $0.7 million for the nine months ended September 30, 2016 over the corresponding period in 2015. The increase is primarily due to increased intangible assets from acquisition activity as we continue to strategically acquire companies to aid in our long-term growth.

(Gains) Losses From Foreign Currency Transactions

The gains from foreign currency transactions increased by $1.7 million for the three months ended September 30, 2016 over the corresponding quarter in 2015. This increase is primarily driven by lower cash balances held in foreign currencies in the three months ended September 30, 2016 as compared to the comparable prior year period.

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The gains from foreign currency transactions increased by $2.6 million for the nine months ended September 30, 2016 over the corresponding period in 2015. This increase is primarily driven by lower cash balances held in foreign currencies and a strengthening U.S. Dollar in the nine months ended September 30, 2016 as compared to the comparable prior year period.

Interest Income

| | Three months ended September 30, | | Variance | % Change | Nine months ended September 30, | | Variance | % Change |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | | 2016 | 2015 | | |
| | (dollars in thousands) | | | | | | | |
| Interest income | $209 | $679 | $(470) | (69)% | $1,167 | $1,800 | $(633) | (35)% |
| Percentage of revenue | — % | 1 % | | | 1 % | 1 % | | |

Interest income decreased by $0.5 million and $0.6 million for the three and nine months ended September 30, 2016, respectively. This decrease was primarily driven by lower investment amounts in the current periods.

Provision for (Benefit from) Income Taxes

| | Three months ended September 30, | | Variance | % Change | Nine months ended September 30, | | Variance | % Change |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | | 2016 | 2015 | | |
| | (dollars in thousands) | | | | | | | |
| Provision for (benefit from) income taxes | $879 | $(41) | $ 920 | (2,244)% | $2,574 | $(703) | $ 3,277 | 466 % |
| Percentage of revenue | 2 % | — % | | | 2 % | (1 )% | | |

The income tax expense for the three months ended September 30, 2016 increased by $0.9 million compared to the three months ended September 30, 2015. This increased expense was primarily due to the taxable operations in foreign jurisdictions, the impact of changes in valuation allowances and transaction expenses that are not tax-deductible.

The income tax expense for the nine months ended September 30, 2016 increased by $3.3 million compared to the nine months ended September 30, 2015, where we recorded an income tax benefit. This increased expense was primarily due to the taxable operations in foreign jurisdictions, the impact of changes in valuation allowances and transaction expenses that are not tax-deductible.

Liquidity and Capital Resources

Sources of Liquidity

Prior to our IPO, we financed our operations primarily through cash generated from operating activities and in earlier periods from private placements of capital stock. On August 14, 2013, we closed our IPO in which we sold and issued 6,440,000 shares of common stock resulting in net proceeds of approximately $122.1 million to us after offering expenses. On January 23, 2014, we closed our follow-on public offering in which we sold and issued 747,500 shares of common stock resulting in net proceeds of approximately $24.8 million to us after offering expenses. As of September 30, 2016, we had $169.1 million of cash and cash equivalents, excluding $10.0 million of short-term investments.

We believe our current cash and cash equivalents, short-term investments and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our revenue growth rate, our spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and improved software solutions, and our planned investments, particularly in our product development efforts or acquisitions of complementary businesses and technologies.

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Working Capital and Cash Flows

The following table summarizes our cash flows for the periods indicated:

| | Nine months ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (In thousands) | |
| Net cash provided by operating activities | $50,803 | $25,439 |
| Net cash used by investing activities | (3,320 ) | (46,862 ) |
| Net cash provided by financing activities | 4,139 | 4,177 |
| Effect of exchange rates on cash | (1,219 ) | (124 ) |
| Change in cash and cash equivalents | $50,403 | $(17,370) |

Our cash, cash equivalents and short-term investments at September 30, 2016 were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and maintain liquidity. Accordingly, our cash and cash equivalents and short-term investments are invested primarily in demand deposit accounts, certificates of deposit and money market funds that are currently providing only a minimal return.

As of September 30, 2016, $11.4 million of our total cash and cash equivalents were held in deposit accounts outside the United States and may be subject to repatriation. All of our short-term investments were held in India. These balances are available for general corporate purposes and we presently do not intend to repatriate these funds.

Operating Activities

Net cash provided by 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 our customers, recurring dollar retention rates and the amount and timing of customer payments. Cash provided by operations in the nine months ended September 30, 2016 and 2015 is primarily attributable to robust cash collections as shown by the change in accounts receivable and deferred revenue, which is driven by the seasonality of our business and our collections process. Our cash flows from operating activities are generally reflective of our ability to invoice annual subscription fees upfront with net 30 payment terms. We experience seasonality in our accounts receivable. The first and fourth quarters historically include a higher level of cash collections, which is a result of higher levels of invoicing in the first and fourth quarter.

Net cash provided by operating activities was $50.8 million for the nine months ended September 30, 2016, which was driven primarily by a decrease in accounts receivable of $1.1 million, an increase in deferred revenue of $12.5 million, which is reflective of our historical cash collections and billing cycle. These cash inflows were further supported by a net increase in accounts payable, accrued expenses, and other liabilities of $13.4 million and a decrease in prepaid expenses and other assets of $3.8 million. Net cash provided by operating activities was reduced by a net loss of $12.4 million for the period, but was more than offset by the exclusion of depreciation, amortization and stock-based compensation of approximately $32.4 million.

Investing Activities

Our investing activities have consisted primarily of purchases of equipment and costs related to software developed for internal use, short-term investments, business acquisitions, and contingent consideration payments related to acquisitions. We expect our capital expenditures and our investment activity to continue to increase as our business grows.

Net cash used by investing activities was $3.3 million for the nine months ended September 30, 2016. The net cash outflow was the result of the use of cash in the amount of $16.2 million for capitalized software development costs and an investment of $3.2 million in property and equipment. This cash outflow was substantially offset by a decline in net purchases of short-term investments of $16.8 million.

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Financing Activities

For the nine months ended September 30, 2016, net cash from financing activities provided $4.1 million in cash during the period as a result of net proceeds received from the exercise of stock options.

Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

On June 23, 2016, the United Kingdom (the “U.K.”) held a referendum in which voters approved an exit from the European Union (the “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 withdrawal from the E.U. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the E.U., undermine bilateral cooperation in key policy areas and significantly disrupt trade between the U.K. and the E.U. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the withdrawal of the U.K. from the E.U. would have and how such withdrawal would affect us.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to other currencies may adversely affect our operating results. The announcement of Brexit and the withdrawal of the U.K. from the E.U. may also create global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending budgets. Any of these effects of Brexit, among others, could adversely affect our business, financial condition, operating results and cash flows.

No other material changes in our market risk occurred from December 31, 2015 through September 30, 2016. We do not hold financial instruments for trading purposes.

Foreign Currency Risk

Foreign currency exchange rates are subject to fluctuation and may cause us to recognize transaction gains and losses in our statement of operations. A portion of our business is conducted through our subsidiary in India whose functional currency is the U.S. Dollar. To the extent that transactions by foreign subsidiaries are denominated in currencies other than the U.S. Dollar, we bear the risk that fluctuations in the exchange rates of the U.S. Dollar in relation to other currencies could increase our costs and expenses. Realized foreign currency transaction (gains) are included in loss from operations and totaled $(0.3) million and $(0.3) million in the three and nine months ended September 30, 2016, respectively. Realized foreign currency transaction losses are included in (loss) income from operations and totaled $1.5 million and $2.3 million in the three and nine months ended September 30, 2015, respectively.

The majority of our Cvent Europe Ltd. revenues are earned in British Pounds and Euros. The revenue for Cvent Europe Ltd. was $2.8 million and $8.7 million for the three and nine months ended September 30, 2016, respectively. The revenue for Cvent Europe Ltd. was $2.5 million and $6.9 million for the three and nine months ended September 30, 2015.

An increase or decrease of 10% in the applicable foreign exchange rates would not have a material impact on our financial position.

As of September 30, 2016, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure.

Inflation Risk

Inflationary factors, such as increases in our operating expenses, may adversely affect our results of operations, as our customers typically purchase services from us on a subscription basis over a multi-year period. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, an increase in the rate of inflation

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in the future may have an adverse effect on our levels of operating expenses as a percentage of revenue if we are unable to increase the prices for our subscription-based solutions to keep pace with these increased expenses.

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. Our cash equivalents primarily consist of money market funds backed by United States Treasury Bills and certificates of deposit. Our short-term investments primarily consist of bank certificates of deposit, all of which are held in India. As of September 30, 2016, we had $169.1 million of cash and cash equivalents, excluding $10.0 million of short-term investments. The carrying amount of our cash equivalents and short-term investments reasonably approximates fair value, due to the short maturities of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk and currency risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio and our tendency to hold investments to maturity, we do not believe an immediate increase or decrease in interest rates of 1% would have a material effect on the fair market value of our portfolio or our interest income. We therefore do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We do not believe our cash equivalents or short-term investments have significant risk of default or illiquidity. While we believe our cash equivalents and short-term investments do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on these deposits.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, or SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2016, due to the material weakness in our internal control over financial reporting as discussed below. Furthermore, our management may be unable to conclude in future periods that our disclosure controls and procedures are effective due to the effects of various factors, which may, in part, include an unremediated material weakness in internal controls over financial reporting.

(b) Material Weaknesses in Internal Control over Financial Reporting

As previously reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and identified material weaknesses in our internal control over financial reporting as of December 31, 2015 as defined in SEC Regulation S-X. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that

a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

As of December 31, 2015, the primary factors contributing to the material weakness, which relates to our control environment and financial statement close process, were:



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- We had ineffective entity and process level controls impacting the preparation and review of our consolidated financial statements and ineffective process level controls related to the review of manually prepared analyses and supporting information used to prepare our consolidated financial statements. Specifically, we identified significant deficiencies in internal controls related to inappropriately designed and ineffective controls over cut off procedures, preparation of the tax provision, and review of account reconciliations. In addition, we did not have controls in place to adequately test the completeness and accuracy of system-generated data used in the execution of our controls. We also determined we had ineffective controls related to the preparation and review of financial statements, all of which in the aggregate, constituted a material weakness in internal control over financial reporting as of December 31, 2015.

This material weakness remains unremediated as of September 30, 2016. As discussed below in Item 4(c), we are implementing measures in an attempt to remediate this material weakness.

As of December 31, 2016, we will cease being an "emerging growth company" and will be considered a large accelerated filer; therefore, among other obligations, we will be required to obtain an auditor's attestation report on our internal controls in our annual report on Form 10-K for the fiscal year ending December 31, 2016. Our auditors may identify material weaknesses in our internal control over financial reporting and disclosure controls. A material weakness may effect our ability to accurately and timely report our financial position, results of operations, cash flows or key operating metrics, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements or other corrective disclosures. Additional impacts could include a decline in our stock price, suspension of trading or delisting of our common stock by the New York Stock Exchange, increased audit fees, or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity. Furthermore, if we continue to have the existing material weakness, other material weaknesses or significant deficiencies in the future, it could create a perception that our financial results do not fairly state our financial condition or results of operations. Any of the foregoing could have an adverse effect on the value of our stock. See "We have identified material weaknesses in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting or effective disclosure controls, this could have a material adverse effect on our business" risk factor disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on March 1, 2016.

(c) Plan for Remediation of Material Weaknesses in Internal Control over Financial Reporting

We have implemented measures toward remediating the underlying causes of the previously identified material weaknesses, primarily through the performance of a risk assessment process; the development and implementation of formal, documented policies and procedures, improved processes and control activities (including an assessment of the segregation of duties).

During the fiscal quarter ended September 30, 2016, we continued to make the following changes to our internal control over financial reporting:

- We have developed and implemented process level controls with respect to the preparation and review of our consolidated financial statements. We have developed and implemented process level controls relating to the review of manually prepared analysis and supporting information used to prepare our consolidated financial statements and are in the process of performing our operating effectiveness testing procedures. At this time, we cannot state whether these controls will prove to be effective.

While we have made significant progress with respect to cut off procedures, the preparation of the tax provision, review of account reconciliations, and with respect to the enhancement of controls related to the preparation and review of our financial statements, we will not consider the material weakness remediated until our internal control processes have been operational for a sufficient period of time and have been successfully tested. Accordingly, we have determined that we continue to have a material weakness in our internal control over financial reporting as of September 30, 2016. We also cannot provide assurance that management will be able to report that our internal control over financial reporting will be effective as of December 31, 2016.

We cannot assure you that we will be able to remediate our existing material weakness in a timely manner, if at all, or that in the future, additional material weaknesses will not exist, reoccur or otherwise be discovered, a risk that is significantly increased in light of the complexity of our business. If our efforts to remediate this material weakness are not successful or if other deficiencies occur, our ability to accurately and timely report our financial position, results

of operations, cash flows or key operating metrics could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements or other corrective disclosures. Additional impacts could include a decline in our stock price, suspension of trading or delisting of our common stock by the New York Stock Exchange,

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or other material adverse effects on our business, reputation, results of operations, financial condition or liquidity. Furthermore, if we continue to have this existing material weakness or other material weaknesses or significant deficiencies in the future, it could create a perception that our financial results do not fairly state our financial condition or results of operations. Any of the foregoing could have an adverse effect on the value of our stock.

d) Changes in Internal Control over Financial Reporting

Other than as described under "Plan for Remediation of Material Weakness in Internal Control over Financial Reporting" above, there were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, operating results, financial condition or cash flows.

### Item 1A. Risk Factors

The risks described in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the Securities and Exchange Commission on March 1, 2016, as supplemented by the risks described in Part II, Item 1A, "Risk Factors," in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, which was filed with the SEC on May 5, 2016, remain current in all material respects. Those risk factors do not identify all risks that we face—our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. If any of the identified risks or others not specified in our SEC filings materialize, our business, financial condition or results of operations could be materially adversely affected. In these circumstances, the market price of our common stock could decline.

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

(a) Unregistered Sales of Equity Securities during the Three Months Ended September 30, 2016

None.

(b) Use of Proceeds from Sale of Registered Equity Securities

August 2013 Initial Public Offering

On August 8, 2013, our Registration Statement on Form S-1, as amended (Reg. No. 333-189837) was declared effective in connection with the initial public offering of our common stock, pursuant to which we registered an aggregate of 6,440,000 shares of our common stock, all of which were sold by us, including the underwriters' over-allotment, at a price to the public of $21.00 per share. The offering closed on August 14, 2013, and, as a result, we received net proceeds of approximately $122.1 million after underwriters' discounts and commissions of approximately $9.5 million and additional offering-related costs of approximately $3.6 million. The managing underwriters of the offering were Morgan Stanley & Co. LLC and Goldman, Sachs & Co. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates. There has been no material change in the planned use of proceeds from our IPO as described in the final prospectus relating to that offering dated August 8, 2013. We invested the funds received in registered money market funds and to date have used a portion of the funds for acquisition costs.

January 2014 Follow-On Public Offering

On January 16, 2014, our Registration Statements on Form S-1, as amended (Reg. Nos. 333-193188 and 333-193400) were declared effective in connection with the follow-on public offering of our common stock, pursuant to which we and the selling stockholders in such transaction registered the sale of an aggregate of 6,072,000 shares of our common stock, 747,500 shares of which were sold by us and 5,324,500, including the underwriters' over-allotment, sold by the selling shareholders, at a price to the public of $35.50 per share. The offering closed on January 23, 2014, and, as a result, we received net proceeds of approximately $24.8 million after underwriters' discounts and commissions of approximately $1.1 million and additional offering-related costs of $650,000. We did not receive any proceeds from the sales of shares by the selling stockholders, other than $96,844 in disgorged profits remitted to the Company by two officers due to their sale of 7,500 shares of common stock under Section 16(b) of the Securities Exchange Act of 1934, as amended. The managing underwriters of the offering were Morgan Stanley & Co. LLC and Goldman, Sachs & Co.

We paid all of the expenses related to the registration and offering of the shares sold by the selling stockholders, other than underwriting discounts and commissions relating to those shares and the fees and expenses of counsel to the selling stockholders. Other than these expenses, we made no payments directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates.

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The principal purposes of the offering were to facilitate an orderly distribution of shares for the selling stockholders in the offering and increase our public float. We currently have no specific plans for the use of a significant portion of the net proceeds to us of the offering. As noted above, we used a portion of the net proceeds to us from the offering to pay certain expenses of the selling stockholders in that offering. Additional funds have been used for working capital and general corporate purposes, including further expansion of our operations, product development and acquisition expenses. We invested the remaining funds received in registered money market funds. There has been no material change in the planned use of proceeds from our initial public offering from that described in the final prospectus filed by us with the SEC pursuant to Rule 424(b) dated January 16, 2014.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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 on the Exhibit Index attached hereto are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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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.

Cvent, Inc.

/s/ Cynthia A. Russo
Cynthia A. Russo
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

Date: November 2, 2016

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EXHIBIT INDEX

| Exhibit Number | Description | Form | File No. | Exhibit Number | Filing Date |
|---|---|---|---|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation. | S-1/A | 333-189837 | 3.2 | August 5, 2013 |
| 3.2 | Amended and Restated Bylaws | 8-K | 001-36043 | 3.1 | April 18, 2016 |
| 4.1 | Second Amended and Restated Investors' Rights Agreement, dated July 15, 2011, by and among Cvent, Inc. and certain security holders of Cvent, Inc. | S-1 | 333-189837 | 4.1 | July 8, 2013 |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | |
| 101.INS | XBRL Instance Document. | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema. | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. | | | | |