

MINDBODY, Inc.
Form S-1
May 11, 2015
Table of Contents

As filed with the Securities and Exchange Commission on May 11, 2015.

Registration No. 333-

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

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MINDBODY, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7372
(Primary Standard Industrial
Classification Code Number)

20-1898451
(I.R.S. Employer
Identification Number)

Edgar Filing: MINDBODY, Inc. - Form S-1

4051 Broad Street, Suite 220

San Luis Obispo, California 93401

(877) 755-4279

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

Richard L. Stollmeyer

President and Chief Executive Officer

MINDBODY, Inc.

4051 Broad Street, Suite 220

San Luis Obispo, California 93401

(877) 755-4279

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Jon Avina

Wilson Sonsini Goodrich & Rosati, P.C. Senior Vice President, General Counsel

650 Page Mill Road

Palo Alto, California 94304

(650) 493-9300

Kimberly Lytikainen

and Secretary

MINDBODY, Inc.

4051 Broad Street, Suite 220

San Luis Obispo, California 93401

(877) 755-4279

David Peinsipp

Charles S. Kim

Andrew S. Williamson

Cooley LLP

**101 California Street, 5th
Floor**

**San Francisco, California
94111**

(415) 693-2000

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Proposed Maximum Aggregate Offering Price (1)(2) | Amount of Registration Fee |
|---|---|-------------------------------|
| Class A common stock, \$0.00001 par value per share | \$100,000,000 | \$11,620 |

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

- (2) Includes the aggregate offering price of additional shares that the underwriters have the right to purchase to cover over-allotments, if any.

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

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued , 2015

Shares

CLASS A COMMON STOCK

MINDBODY, Inc. is offering shares of its Class A common stock. This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price per share will be between \$ and \$.

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The rights of the holders of our Class A common stock and Class B common stock will be identical, except with respect to voting and conversion rights. Each share of our Class A common stock will be entitled to one vote. Each share of our Class B common stock will be entitled to 10 votes and will be convertible at any time into one share of our Class A common stock.

All shares of our capital stock outstanding immediately prior to this offering, including all shares held by our executive officers, employees and directors, and their respective affiliates, will be reclassified into shares of our Class B common stock immediately prior to this offering. The holders of our outstanding Class B common stock will hold approximately % of the voting power of our outstanding capital stock immediately following this offering.

We intend to apply to list our Class A common stock on the under the symbol MB.

We are an emerging growth company as defined under the U.S. federal securities laws and, as such, are subject to reduced public company reporting requirements. Investing in our Class A common stock involves risks. See Risk Factors beginning on page 17.

PRICE \$ A SHARE

| | <i>Underwriting</i> | | |
|------------------|---------------------|----------------------------------|--------------------|
| | <i>Price to</i> | <i>Discounts and</i> | <i>Proceeds to</i> |
| | <i>Public</i> | <i>Commissions⁽¹⁾</i> | <i>MINDBODY</i> |
| <i>Per Share</i> | <i>\$</i> | <i>\$</i> | <i>\$</i> |
| <i>Total</i> | <i>\$</i> | <i>\$</i> | <i>\$</i> |

(1) See Underwriting beginning on page 153 for additional information regarding underwriting compensation. We have granted the underwriters the right to purchase up to an additional _____ shares of Class A common stock to cover over-allotments.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A common stock to purchasers on _____, 2015.

*MORGAN STANLEY
PACIFIC CREST SECURITIES
, 2015*

CREDIT SUISSE

*UBS INVESTMENT BANK
JMP SECURITIES*

Table of Contents

Table of Contents

Table of Contents

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>Prospectus Summary</u> | 1 |
| <u>Risk Factors</u> | 17 |
| <u>Special Note Regarding Forward-Looking Statements</u> | 48 |
| <u>Market, Industry and Other Data</u> | 50 |
| <u>Use of Proceeds</u> | 52 |
| <u>Dividend Policy</u> | 53 |
| <u>Capitalization</u> | 54 |
| <u>Dilution</u> | 56 |
| <u>Selected Consolidated Financial and Other Data</u> | 59 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 63 |
| <u>Letter from the Co-Founders</u> | 90 |
| <u>Business</u> | 91 |
| | Page |
| <u>Management</u> | 117 |
| <u>Executive Compensation</u> | 124 |
| <u>Certain Relationships and Related Party Transactions</u> | 132 |
| <u>Principal Stockholders</u> | 137 |
| <u>Description of Capital Stock</u> | 140 |
| <u>Shares Eligible for Future Sale</u> | 145 |
| <u>Material U.S. Federal Income Tax Consequences to Non-U.S. Holders of Our Class A Common Stock</u> | 147 |
| <u>Underwriting</u> | 151 |
| <u>Legal Matters</u> | 157 |
| <u>Experts</u> | 157 |
| <u>Where You Can Find Additional Information</u> | 157 |
| <u>Index to Consolidated Financial Statements</u> | F-1 |

Through and including _____, 2015 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.

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

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information that is presented in greater detail elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our Class A common stock. You should read this entire prospectus carefully, including the sections titled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. Unless the context otherwise requires, the terms MINDBODY, the company, we, us and our in this prospectus refer to MINDBODY, Inc. and its consolidated subsidiaries.

MINDBODY, INC.

Our Vision

Our vision is to leverage technology to improve the wellness of the world.

Overview

We are the leading global online wellness marketplace with over 42,000 local business subscribers on our platform in 124 countries and territories employing over 250,000 practitioners who provide a variety of wellness services to over 24 million active consumers. Our integrated cloud-based business management software and payments platform for the wellness services industry helps our subscribers simplify the way they run their businesses, attract and engage more consumers, boost their revenues and focus more on what they love to do – improving people's lives. Moreover, we help consumers more easily evaluate, engage and transact with these subscribers, enabling them to live healthier and happier lives. We are also the largest payments platform dedicated to the wellness services industry. In the 12 months ended March 31, 2015, \$6.3 billion in transactions occurred between consumers and subscribers within our marketplace, of which \$4.3 billion flowed through our payments platform.

Our platform is specifically designed for the wellness services industry. Wellness encompasses multiple dimensions of a person's well-being – physical, emotional, social, occupational and spiritual, among others. As a result, we include health and fitness, integrative health, salon and spa, fine arts and children's activities as categories within the wellness services industry. According to a report that we commissioned from Frost and Sullivan, our addressable market is approximately 4.2 million wellness businesses worldwide. Based on their analysis, Frost and Sullivan estimates a \$9.5 billion market for business management software solutions targeted at wellness businesses in 2015 and expects this market to grow to \$15.3 billion in 2018, which implies a 17.1% compound annual growth rate, or CAGR. With over 42,000 local business subscribers, we estimate our current market penetration to be less than 1%.

We believe millions of wellness businesses around the world are looking for a simple, efficient and reliable way to manage their operations. Through our integrated cloud-based business management software and payments platform, we enable businesses to easily manage class and appointment schedules, staff members, client information, online bookings, inventory, payroll and retail sales – all in a cost-effective manner. At the same time, we connect consumers with local businesses through our MINDBODY Connect platform, which powers a mobile interface that allows consumers to discover, evaluate, book and pay for wellness services, whether they are near their homes or traveling.

As employers become increasingly focused on wellness programs to improve the health, fitness and productivity of their employees, our MINDBODY Connect Workplace offering combines the power of our software platform with the ease of our Connect platform to enable employees to choose from a wide variety of

Table of Contents

on-site and local wellness services. We believe Connect Workplace helps employees live healthier, happier and more productive lives, while allowing employers to benefit from greater staff productivity, lower attrition and reduced healthcare costs.

We have enabled a rich partner ecosystem of over 600 developers and partners who extend the value of our platform in powerful ways. These developers and partners have built applications that supplement our capabilities in areas such as automation, marketing, mobile and social interaction. Several of these partners have created significant consumer-facing businesses that rely on our unique inventory of classes, scheduling and payments capabilities. All of this is enabled by our application programming interface, or API, through which we grant access to approved developers and partners. We believe that the opportunities and technology provided by our partners enhance the power of our marketplace and contribute to the attractiveness and critical position of MINDBODY within the wellness ecosystem.

As more local wellness businesses adopt our business management and payments platform, more subscriber listings appear on Connect. A larger critical mass of local wellness services on Connect attracts more consumers, which in turn attracts more local wellness businesses that want to engage with these consumers, thereby creating powerful network effects that benefit the entire ecosystem. Similarly, as more corporate wellness subscribers adopt Connect Workplace, their employees begin using our platform, which leads to increased demand from local wellness businesses to be listed on Connect. As more local wellness businesses appear on Connect, more employees use our platform to redeem their corporate incentives, which in turn leads to more corporate wellness subscribers being attracted to our platform. Finally, as we add more subscribers, consumers and employees to our wellness ecosystem, we attract more technology developers and partners who can use our API to develop additional apps that extend the capabilities of our open platform.

(1) We define active consumers as all unique consumers who have used our platform to transact with our subscribers during the immediately preceding two years.

Our financial performance reflects our significant subscriber growth and increasing revenue per subscriber. Our total revenue increased from \$32.0 million in 2012, to \$48.7 million in 2013 to \$70.0 million in 2014, representing year-over-year increases of 52% and 44% in 2013 and 2014, respectively. For the three months ended March 31, 2014 and 2015, our revenue was \$15.7 million and \$22.3 million, respectively, representing a 42% growth rate. Our net loss was \$5.5 million, \$16.2 million and \$24.6 million for 2012, 2013 and 2014,

Table of Contents

respectively. For the three months ended March 31, 2014 and 2015, our net loss was \$4.8 million and \$7.9 million, respectively. Our Adjusted EBITDA was negative \$2.5 million, negative \$11.5 million and negative \$18.8 million for 2012, 2013 and 2014, respectively. For the three months ended March 31, 2014 and 2015, our Adjusted EBITDA was negative \$3.8 million and negative \$5.3 million, respectively. For a reconciliation of Adjusted EBITDA to net loss, please see the section titled Summary Consolidated Financial and Other Data Non-GAAP Financial Measure.

Industry Background

Increasing Focus on Personal Health and Beauty is Fueling Global Demand for Wellness Services

An increased focus on personal health and beauty represents a major global trend among consumers and is driving growth in wellness services worldwide. As the desire for longer, healthier lives, attractive appearance and overall physical and emotional well-being grows, more and more people are adopting a lifestyle that incorporates a healthier diet, regular physical exercise, integrative health, salon, spa and other wellness services.

While over 2.1 billion people or nearly 30% of the world's population are overweight, consumers are becoming increasingly aware of the risks associated with obesity and the benefits of regular physical exercise and are therefore seeking to achieve a healthy weight and fitness level. In addition, while decades ago individual spending on exercise classes and spa and salon services was minimal, we believe consumers across generations today are increasingly willing to allocate a significant portion of their disposable income to wellness services.

Moreover, people increasingly consume salon, spa and integrative health services to enhance emotional, social and physical wellness. We believe that while in developed markets, the aging population is demanding more salon, spa and integrative health services, in emerging markets, demand is driven by urbanization and the resulting increase in social interactions.

Growing Demand for Personalized Wellness Experiences has been Driving Industry Fragmentation

We believe consumers are increasingly seeking more personalized and effective wellness experiences and are opting for smaller businesses that are more conveniently located and cater to individual needs and preferences. As a result, the number of small wellness businesses has proliferated over the past decade, while all-inclusive facilities such as large health clubs now comprise only a small percentage of the wellness services industry's aggregate revenue. Meanwhile, the market share of smaller businesses has been growing rapidly, which can be seen in the increasing number of businesses that specialize in practices such as yoga, Pilates, barre, Zumba and CrossFit.

Escalating Healthcare Costs are Driving Employers Worldwide to Develop Corporate Wellness Programs that Incentivize the Use of Wellness Services

Healthcare costs for employers have been increasing significantly: According to healthcare research foundation The Commonwealth Fund, from 2003 to 2013, the annual cost of family coverage for U.S. employers rose 73% to an average of \$16,029. A 2010 study published in the Journal of Occupational and Environmental Medicine estimated that the cost of obesity among full-time employees reaches \$73.1 billion each year. To reduce rising healthcare expenses and excessive absenteeism as well as to improve their employees' productivity, more and more organizations are implementing corporate wellness and other incentive programs to encourage healthy behavior. A 2012 study by RAND Health found that participation in a wellness program is associated with lower health care costs.

Despite the wide availability of corporate wellness programs, the actual participation of employees in such programs remains limited. According to the Business Journal, Gallup reported that although more than 85% of

Table of Contents

large employers offer wellness programs, only 24% of employees at these companies actually participate in the programs. We believe this is due to the fact that employers lack effective tools to incentivize participation in wellness programs and often fail to satisfy a broad range of employee preferences.

Consumers Need a Single, Mobile Enabled Interface for their Wellness Services Needs

Due to the fragmented nature of the wellness services industry, consumers often find it complicated and time consuming to find and book wellness services. Consumers increasingly expect to be able to identify, research and schedule the desired wellness services using their mobile devices in a manner that allows them to view class schedules, practitioner details and consumer reviews, make bookings conveniently outside business hours through web or mobile interfaces and pay for these services seamlessly online.

Wellness Businesses Need an Integrated Software and Payments Platform that is Designed to Meet their Industry-Specific Needs

Wellness businesses have to manage online bookings, staff scheduling and payroll, and resource allocation. They also need to promote their wellness services, attract new consumers and nurture consumer relationships. In addition, business owners need to keep track of key business performance indicators and take action to increase revenue and improve profitability. Many wellness businesses use basic tools like paper forms or Excel spreadsheets to perform some of these functions, which can be time consuming and distracting. We have observed that the inability of business owners to focus on their core business often leads to lost revenue and lower consumer retention. To succeed in the marketplace, wellness businesses need an easy-to-use and integrated cloud-based software and payments solution that is specifically designed for their needs, is cost effective and can be accessed anytime from anywhere and on any device.

The MINDBODY Solution

Our integrated cloud-based business management software and payments platform is specifically designed to address the unique requirements of the wellness services industry. We help our subscribers simplify their operations, focus on their consumers and grow their revenue by enabling them to attract and retain consumers.

Integrated Software and Payments Platform Designed Specifically for the Needs of Local Wellness Businesses

We have developed a cloud-based software and payments platform with powerful functionality that addresses key aspects of operating a wellness business, including:

Client Scheduling and Online Booking. We offer subscribers the most complete online client scheduling capability available on the market today. We are the only platform provider that enables all four different types of scheduling that wellness businesses typically encounter: appointments, open classes, enrollments and workshops and resource scheduling.

Staff Management. With our staff and resource scheduling software features, staff management is easy and organized. Subscribers keep the whole schedule in one place, allowing them to manage staff availability, hours, substitutions, commissions and other compensation, all of which is easily linked to payroll records.

Client Relationship Management. With our client relationship management features, subscribers have all their consumer information in one place and can take advantage of powerful consumer relationship and marketing tools.

Integrated Software and Payments. We offer our subscribers payment processing solutions at competitive rates. Our integrated payments platform allows for convenient and secure storage of consumer credit card

Table of Contents

information, which allows for seamless online bookings, recurring membership payments through our business management software and online store purchases through Connect.

Retail Point of Sale. Our point-of-sale capabilities help subscribers sell products and services, contracts and memberships, packages, workshops and store-branded gift cards.

Analytics and Reporting. We track key information that subscribers need to know to achieve their business goals, including revenue growth, contribution margin of classes, consumer retention rates, referral sources, return on investment for consumer retention campaigns and practitioner performance based on consumer loyalty and reviews by class or type of service.

Simple and Intuitive User Experience. We designed our business management software with a focus on developing a visually appealing interface that is simple, easy to use and requires little training, while offering subscribers powerful business management features.

Mobility. Our platform enables our subscribers to manage their operations anytime and anywhere via a number of mobile devices and operating systems, including Mac, iOS, Android and Windows.

Dynamic Cloud-Based Architecture. Our software platform is powered by a dynamic cloud-based architecture that requires low upfront investment and no maintenance and can easily scale with subscribers as their businesses grow.

Security and Compliance. We consistently earn a Level I Payment Card Industry Data Security Standard, or PCI DSS, and Health Insurance Portability and Accountability Act, or HIPAA, compliance rating.

Social Integration. Our platform integrates with popular social networks like Facebook and Twitter, allowing our subscribers to publish schedules on their Facebook page and enabling consumers to directly schedule appointments and classes via Facebook.

MINDBODY Connect

A key component of our platform is Connect, our consumer-facing mobile app. With Connect, consumers have a unified account to manage all aspects of their wellness activities with a single log in. They can discover local wellness services using a geo-located map function, view class and appointment descriptions, schedules and real-time availability, read practitioner biographies and user reviews written by consumers who have actually received the service, and then book and pay for their desired services in a few taps from their mobile device.

MINDBODY Connect Workplace

Our Connect Workplace offering is designed to allow corporate wellness subscribers to encourage healthy habits for their employees and measure the results. Subscribers to Connect Workplace use our platform to manage on-site wellness services, incentivize employees to take advantage of the local wellness businesses in our network and

analyze aggregate employee attendance data.

Rich Partner Ecosystem

We have enabled a rich partner ecosystem of over 600 developers and partners who extend the value of our platform in powerful ways.

Open Platform for Third-Party App Development. We have built an open and extensible platform with an API that offers approved developers access to our unique inventory of classes, scheduling and payments capabilities.

Integration with Other Cloud-Based Partners. Our platform can be integrated with other cloud-based software that our subscribers may be using for critical business management tasks to extend the capabilities of our platform within a variety of focus areas such as automation, marketing, mobile and social.

Table of Contents

Key Benefits to Marketplace Constituents

Benefits to Subscribers and Practitioners.

Simplify business operations.

Focus more attention on clients and the quality of service they receive.

Grow loyal client base and recurring revenue.

Benefits to Consumers.

Convenient single interface that addresses their wellness services needs.

Time savings and excellent user experience increase engagement and achievement of wellness goals.

Central database for wellness activities facilitates fitness graph tracking.

Benefits to Employers.

Improve employee satisfaction and engagement by providing more personalized wellness options and built-in incentives.

Increase employee productivity and reduce long-term group healthcare costs with greater wellness activity participation.

Monitor and improve effectiveness by analyzing engagement and employee feedback.

Our Market Opportunity

According to IBISWorld, in 2014, the total revenue of gyms, health and fitness clubs in the United States was expected to reach \$26.5 billion, and the U.S. salon market, consisting of haircutting services, hair coloring services, nail care services, skin care services and other services, was expected to reach \$50.2 billion. The global markets for these services are significantly larger. In addition, the U.S. corporate wellness services market was expected to reach \$7.4 billion in 2014, according to IBISWorld. According to a report that we commissioned from Frost and Sullivan, our addressable market is approximately 4.2 million wellness businesses worldwide. Based on their analysis, Frost

and Sullivan estimates that the market for business management software solutions targeted at wellness businesses will grow to \$9.5 billion in 2015 and expects this market to grow to \$15.3 billion in 2018, which implies a 17.1% CAGR. In addition, we believe there are a significant number of individual practitioners worldwide who are not included in the 4.2 million addressable market estimate and can benefit from our business management software and payments platform. With over 42,000 local business subscribers, we estimate our current market penetration to be less than 1%. While we expect competition in the industry to increase and evolve over time, given our current market leadership, we believe that we are well positioned to compete for and capture a significant portion of global software and payments spending in the wellness services industry.

Our Competitive Strengths

The Leading Global Online Wellness Marketplace. We are the leading global online wellness marketplace with over 42,000 local business subscribers on our platform in 124 countries and territories employing over 250,000 practitioners who provide a variety of wellness services to over 24 million active consumers. Due to our unmatched global wellness network, Connect has become the go-to destination for consumers to manage their wellness services activities.

Industry-Specific Expertise. Our team of experts understands the detailed workflows and needs of each type of business within the wellness services industry, and has designed our integrated cloud-based business management software and payments platform specifically to address the unique requirements of these businesses.

Table of Contents

Powerful Network Effects. As more local wellness businesses use our platform, more subscriber listings appear on Connect. A larger critical mass of local wellness services on Connect attracts more consumers, which in turn attracts more local wellness businesses that want to engage with these consumers, thereby creating powerful network effects that benefit the entire ecosystem. Similarly, as more corporate wellness subscribers adopt Connect Workplace, more employees use our platform to redeem their corporate incentives, which in turn attracts both wellness businesses and corporate wellness subscribers. Finally, as we add more subscribers, consumers and employees to our wellness ecosystem, we attract more technology developers and partners who can use our API to develop additional apps that extend the capabilities of our open platform.

Integrated Cloud-Based Business Management Software and Payments Platform. The seamless integration between our business management software and payments platform provides a convenient one-stop solution for our subscribers. Subscribers save time and resources by avoiding the use of a separate payments platform and the associated burdensome manual reconciliations of transactions that result from a lack of automation. We believe that this integrated software and payments capability leads to higher subscriber engagement with our platform and a larger recurring revenue stream for us.

Ability to Scale with Subscribers Businesses. Our feature-rich software scales from individual practitioners to large, international organizations that have hundreds of locations. It is possible for an independent mobile practitioner starting her small business to begin with our entry level software, upgrade to our more robust offerings as she opens her first brick-and-mortar location, then add locations and ultimately create a substantial chain on our platform. This type of inspirational story has happened many times.

Critical Position in the Wellness Ecosystem. We have enabled a rich partner ecosystem of over 600 developers and partners who extend the value of our platform in powerful ways. Many of our technology partners and API platform partners have built successful businesses, or have significantly expanded their existing businesses, to cater to our subscribers and consumers via our platform. We believe the time, effort and dollars spent by these businesses to integrate with our platform point to the critical position that MINDBODY has established in the ecosystem.

Proprietary Data and Analytics. Our software and payments platform collects and presents critical information that enables subscribers to fine tune their business operations and enables us to observe macro level wellness services industry trends that inform our business decisions. With our software, subscribers can analyze their consumer data, including demographics, type and frequency of activities and spending habits. In addition, we help subscribers assess the performance of their staff. We also collect and display consumer reviews to both subscribers and consumers. This enables consumers to make more informed buying decisions and helps our subscribers improve their businesses. Due to our market leadership position, we have access to more proprietary data than our competitors, which helps us improve our platform and allows us to provide unique insights and analytical capabilities.

Exceptional Company Culture that Drives Performance. The MINDBODY team shares an exceptional company culture that incorporates our core values of being purpose driven, humble and helpful, caring and happy, committed to wellness, environmentally conscious, continuously evolving and committed to leadership. According to a report from Mashable based on data from Glassdoor in December 2014, MINDBODY has been named one of the Top 10 Best Tech Companies To Work For in 2015. We believe our culture gives us a competitive advantage in recruiting and retaining talent, driving innovation, enhancing productivity and improving customer experience.

Table of Contents

Our Growth Strategy

Given the increasing demand for wellness services among consumers today and a largely untapped market, we believe our opportunity is significant and growing. Key elements of our growth strategy include:

Continuing to expand our subscriber base, both domestically and internationally;

Deepening relationships with existing subscribers;

Growing consumer adoption of Connect;

Continuing to innovate and broaden our platform;

Further developing our partnerships and wellness ecosystem;

Increasing our presence in corporate wellness;

Making strategic investments and select acquisitions; and

Expanding our international reach via partnerships and investments in our salesforce.

Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled **Risk Factors** immediately following this prospectus summary. These risks include, but are not limited to, the following:

We have a history of losses, and our revenue growth rate may not sustain the levels experienced in recent years. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.

We derive, and expect to continue to derive, a majority of our revenue and cash flows from our integrated cloud-based business management software and payments platform for the wellness services industry. If we fail to adapt this platform to changing market dynamics and subscriber preferences or to achieve increased market acceptance of our platform, our business, results of operations, financial condition and growth prospects would be adversely affected.

Our business depends substantially on our subscribers renewing their subscriptions to our platform. Any decline in the rate at which subscribers renew their subscriptions would harm our future operating results.

If we are not able to enhance our platform to achieve market acceptance and keep pace with technological developments, our business would be harmed.

Our payments platform is a core element of our business, and any failure to grow and develop our payment processing activities, or to anticipate changes in consumer behavior, could materially and adversely affect our business and financial results.

Our payment processing platform is subject to United States and international rules and regulations, many of which are still developing. If we fail to comply with such rules and regulations or if new laws, rules or practices applicable to payment systems restrict our ability to collect fees from our payment processing platform, our financial results could be materially and adversely effected.

If we incur an actual or perceived breach to our payment processing platform, we may incur significant liabilities and our brand and reputations may be damaged.

We are subject to risks related to our reliance on third-party processing partners to perform our payment processing services.

Table of Contents

We may undertake to directly perform certain payment processing services and expand the scope of payment processing services we provide, which may require a significant investment of time and resources, and expand our exposure to potential liabilities.

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of this offering, including our executive officers, employees and directors and their affiliates, which will limit your ability to influence the outcome of important transactions, including a change in control. The holders of our outstanding Class B common stock will hold approximately % of the voting power of our outstanding capital stock following this offering.

Corporate Information

We were organized as a California limited liability company in February 2001 and converted into a California corporation in October 2004. We were reincorporated in Delaware in March 2015. Our principal executive offices are located at 4051 Broad Street, Suite 220, San Luis Obispo, California 93401, and our telephone number is (877) 755-4279. Our website address is www.mindbodyonline.com. Information contained on, or that can be accessed through, our website does not constitute part of this prospectus and inclusions of our website address in this prospectus are inactive textual references only.

Unless expressly indicated or the context requires otherwise, the terms MINDBODY, company, we, us, and our prospectus refer to MINDBODY, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries. The Enso design logo, MINDBODY, MINDBODY Connect, Love Your Business, MINDBODY Connect Workplace and our other registered and common law trade names, trademarks and service marks are the property of MINDBODY, Inc. Other trademarks and trade names referred to in this prospectus are the property of their respective owners.

Emerging Growth Company

The Jumpstart Our Business Startups Act, or the JOBS Act, was enacted in April 2012 with the intention of encouraging capital formation in the United States and reducing the regulatory burden on newly public companies that qualify as emerging growth companies. We are an emerging growth company within the meaning of the JOBS Act. As an emerging growth company, we may take advantage of certain exemptions from various public reporting requirements, including the requirement that our internal control over financial reporting be audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, certain requirements related to the disclosure of executive compensation in this prospectus and in our periodic reports and proxy statements and the requirement that we hold a nonbinding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions until we are no longer an emerging growth company.

We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which we have more than \$1.0 billion in annual revenue; (ii) the date we qualify as a large accelerated filer, with at least \$700 million of equity securities held by non-affiliates; (iii) the date on which we have issued, in any three-year period, more than \$1.0 billion in non-convertible debt securities; and (iv) the last day of the fiscal year ending after the fifth anniversary of the completion of this offering.

See the section titled Risk Factors Risks Related to Ownership of Our Class A Common Stock and this Offering We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging

growth companies will make our common stock less attractive to investors for certain risks related to our status as an emerging growth company.

Table of Contents**THE OFFERING**

| | |
|---|---|
| Class A common stock offered by us | shares |
| Class A common stock to be outstanding after this offering | shares |
| Class B common stock to be outstanding after this offering | shares |
| Over-allotment option offered by us | shares |
| Total Class A common stock and Class B common stock to be outstanding after this offering | shares (shares if the underwriters exercise their over-allotment option in full) |
| Use of proceeds | <p>We estimate that the net proceeds from the sale of shares of our Class A common stock in this offering will be approximately \$ million (or approximately \$ million if the underwriters exercise their over-allotment option in full), based upon the assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.</p> <p>The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our Class A common stock and enable access to the public equity markets for us and our stockholders. We intend to use the net proceeds from this offering for general corporate purposes, including working capital, operating expenses and capital expenditures. Additionally, we may use a portion of the net proceeds to acquire businesses, products, services or technologies. However, we do not have agreements or commitments for any material acquisitions at this time. See the section titled Use of Proceeds for additional information.</p> |
| Voting rights | <p>Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The holders of our Class A common stock are entitled to one vote per share, and the holders of our Class B common stock are entitled to 10 votes per share, on all matters that are subject to a</p> |

stockholder vote.

All shares of our capital stock outstanding immediately prior to this offering, including all shares held by our executive officers, employees and directors, and their respective affiliates, will be reclassified into shares of our Class B common stock immediately prior to this

Table of Contents

offering. Holders of our Class A common stock and Class B common stock will generally vote together as a single class, unless otherwise required by law or our amended and restated certificate of incorporation. The holders of our outstanding Class B common stock will hold approximately % of the voting power of our outstanding capital stock following this offering and will have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors and the approval of any change in control transaction. See the sections titled Principal Stockholders and Description of Capital Stock for additional information.

Proposed trading symbol

MB

The number of shares of our Class A common stock and Class B common stock that will be outstanding after this offering is based on no shares of our Class A common stock and 12,787,020 shares of our Class B common stock (including our redeemable convertible preferred stock on an as-converted basis) outstanding as of March 31, 2015, and excludes:

1,265,228 shares of our Class B common stock issuable upon the exercise of options to purchase shares of our Class B common stock outstanding as of March 31, 2015, with a weighted-average exercise price of \$19.89 per share;

35,670 shares of our Class B common stock, on an as-converted basis, issuable upon the exercise of a warrant to purchase shares of our redeemable convertible preferred stock outstanding as of March 31, 2015, with an aggregate exercise price of approximately \$151,603;

108,000 shares of our Class B common stock issuable upon the exercise of options to purchase shares of our Class B common stock granted after March 31, 2015, with an exercise price of \$36.24 per share; and

shares of our common stock reserved for future issuance under our equity compensation plans, consisting of:

shares of our Class A common stock reserved for future issuance under our 2015 Equity Incentive Plan, or our 2015 Plan;

219,874 shares of our Class B common stock reserved for future issuance under our 2009 Stock Option Plan, or our 2009 Plan (after giving effect to the grant of 108,000 shares of our Class B common stock issuable upon the exercise of options to purchase shares of our Class B common stock after March 31,

2015 and the cancellation and return of 77 shares of our Class B common stock to our 2009 Plan after March 31, 2015), which number of shares will be added to the shares of our Class A common stock to be reserved for future issuance under our 2015 Plan upon its effectiveness, at which time we will cease granting awards under our 2009 Plan; and

shares of our Class A common stock reserved for future issuance under our 2015 Employee Stock Purchase Plan, or our ESPP.

Our 2015 Plan and ESPP each provide for annual automatic increases in the number of shares reserved thereunder, and our 2015 Plan also provides for increases to the number of shares that may be granted thereunder based on shares under our 2009 Plan that expire, are forfeited or otherwise repurchased by us, as more fully described in the section titled Executive Compensation Employee Benefit and Stock Plans.

Table of Contents

Except as otherwise indicated, all information in this prospectus assumes:

the filing and effectiveness of our amended and restated certificate of incorporation in Delaware and the effectiveness of our amended and restated bylaws, each of which will occur immediately prior to the completion of this offering;

the reclassification of all outstanding shares of our common stock into an equivalent number of shares of our Class B common stock and the authorization of our Class A common stock, each of which will occur immediately prior to the completion of this offering;

the automatic conversion and reclassification of all outstanding shares of our redeemable convertible preferred stock into an aggregate of 8,269,463 shares of our Class B common stock, which will occur immediately prior to the completion of this offering;

the automatic conversion and reclassification of an outstanding warrant to purchase 35,000 shares of our redeemable convertible preferred stock into a warrant to purchase 35,670 shares of our Class B common stock, which will occur immediately prior to the completion of this offering; and

no exercise by the underwriters of their over-allotment option.

Table of Contents**SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA**

The summary consolidated statements of operations data for the years ended December 31, 2012, 2013, and 2014 are derived from audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the three months ended March 31, 2014 and 2015 and the consolidated balance sheet data as of March 31, 2015 are derived from unaudited interim consolidated financial statements included elsewhere in this prospectus. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for the fair presentation of the unaudited interim consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected in the future and are not necessarily indicative of results to be expected for the full year or any other period. The following summary consolidated financial and other data should be read with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

| | Year Ended December 31, | | | Three Months Ended | |
|--|---|-----------|-----------|--------------------|-----------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | (in thousands, except share and per share data) | | | | |
| Consolidated Statements of Operations Data: | | | | | |
| Revenue | \$ 31,999 | \$ 48,687 | \$ 70,010 | \$ 15,653 | \$ 22,263 |
| Cost of revenue ⁽¹⁾ | 13,411 | 21,890 | 30,004 | 6,478 | 8,693 |
| Gross profit | 18,588 | 26,797 | 40,006 | 9,175 | 13,570 |
| Operating expenses: | | | | | |
| Sales and marketing ⁽¹⁾ | 11,735 | 20,957 | 30,922 | 7,247 | 9,717 |
| Research and development ⁽¹⁾ | 3,741 | 10,517 | 16,167 | 3,594 | 4,725 |
| General and administrative ⁽¹⁾ | 8,111 | 10,730 | 18,422 | 3,530 | 6,780 |
| Change in fair value of contingent consideration | | 428 | (1,434) | (423) | |
| Total operating expenses | 23,587 | 42,632 | 64,077 | 13,948 | 21,222 |
| Loss from operations | (4,999) | (15,835) | (24,071) | (4,773) | (7,652) |
| Change in fair value of preferred stock warrant | (515) | (302) | (283) | (22) | (150) |
| Interest income | 6 | | | | 3 |
| Interest expense | (15) | (21) | (68) | (20) | (17) |
| Other income (expense), net | 17 | (26) | (68) | 5 | (39) |
| Loss before provision for income taxes | (5,506) | (16,184) | (24,490) | (4,810) | (7,855) |
| Provision for income taxes | 13 | 63 | 116 | 34 | 6 |

Edgar Filing: MINDBODY, Inc. - Form S-1

| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Net loss | (5,519) | (16,247) | (24,606) | (4,844) | (7,861) |
| Accretion of redeemable convertible preferred stock ⁽²⁾ | (13,025) | (27,892) | (21,311) | (5,831) | (5,459) |
| Deemed dividend preferred stock modification | | | | | 1,748 |
| Net loss attributable to common stockholders ⁽²⁾ | \$ (18,544) | \$ (44,139) | \$ (45,917) | \$ (10,675) | \$ (11,572) |
| Net loss per share attributable to common stockholders, basic and diluted ⁽²⁾ | \$ (4.59) | \$ (10.26) | \$ (10.42) | \$ (2.43) | \$ (2.58) |
| Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted ⁽²⁾ | 4,040,891 | 4,303,182 | 4,405,472 | 4,387,275 | 4,480,711 |
| Pro forma net loss per share attributable to common stockholders, basic and diluted ⁽²⁾ | | | \$ (1.94) | | \$ (0.60) |
| Weighted-average shares used to compute pro forma net loss per share attributable to common stockholders, basic and diluted ⁽²⁾ | | | 12,513,063 | | 12,750,174 |

Table of Contents

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

| | Year Ended December 31, | | | Three Months Ended | |
|---|-------------------------|---------------|-----------------|--------------------|-----------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | (in thousands) | | | | |
| Cost of revenue | \$ | \$ 51 | \$ 220 | \$ 24 | \$ 100 |
| Sales and marketing | | 56 | 196 | 34 | 541 |
| Research and development | | 68 | 298 | 53 | 96 |
| General and administrative | 1,484 | 252 | 1,023 | 225 | 403 |
| Total stock-based compensation expense | \$ 1,484 | \$ 427 | \$ 1,737 | \$ 336 | \$ 1,140 |

(2) See Note 13 to our consolidated financial statements included elsewhere in this prospectus for an explanation of the method used to calculate our actual and pro forma basic and diluted net loss per share attributable to common stockholders, and the weighted-average number of shares used in the computation of the per share amounts. The pro forma as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing.

| | As of March 31, 2015 | | |
|---|----------------------|--------------------------|---|
| | Actual | Pro Forma ⁽¹⁾ | Pro Forma As Adjusted ⁽²⁾⁽³⁾ |
| | (in thousands) | | |
| Consolidated Balance Sheet Data: | | | |
| Cash and cash equivalents | \$ 22,099 | \$ 22,099 | \$ |
| Working capital | 14,142 | 14,142 | |
| Property and equipment, net | 32,487 | 32,487 | |
| Total assets | 71,077 | 71,077 | |
| Total deferred revenue | 2,865 | 2,865 | |
| Total financing obligation | 17,002 | 17,002 | |
| Preferred stock warrant | 1,338 | | |
| Redeemable convertible preferred stock | 170,159 | | |
| Total stockholders' equity (deficit) | (133,828) | 37,669 | |

(1) The pro forma column gives effect to (i) the automatic conversion and reclassification of all outstanding shares of our redeemable convertible preferred stock into an aggregate of 8,269,463 shares of our Class B common stock, which conversion and reclassification will occur immediately prior to the completion of this offering, (ii) the resulting reclassification of the preferred stock warrant liability to stockholders' equity, and (iii) the filing and effectiveness of our amended and restated certificate of incorporation in Delaware, as if such conversion,

- reclassification and effectiveness had occurred on March 31, 2015.
- (2) The pro forma as adjusted column gives effect to the pro forma adjustments set forth in footnote 1 above and the sale and issuance by us of _____ shares of our Class A common stock in this offering, based upon the assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.
 - (3) Each \$1.00 increase or decrease in the assumed initial public offering price of our Class A common stock of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase or decrease, as applicable, the amount of each of our pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders' equity (deficit) by approximately \$ _____ million, assuming that the number of shares offered by us, as set forth on the cover

Table of Contents

page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase or decrease of 1.0 million shares in the number of shares offered by us would increase or decrease, as applicable, the amount of each of our pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders' equity (deficit) by approximately \$ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Key Metrics

We regularly review the following key metrics to measure our performance, identify trends affecting our business, formulate financial projections, make strategic business decisions and assess working capital needs.

| | As of and for Year Ended December 31, | | | As of and for Three Months Ended March 31, |
|--|---------------------------------------|----------|----------|---|
| | 2012 | 2013 | 2014 | 2015 |
| Subscribers (end of period) ⁽¹⁾ | 22,062 | 31,043 | 40,517 | 42,700 |
| Average monthly revenue per subscriber ⁽²⁾ | \$ 131 | \$ 146 | \$ 155 | \$ 174 |
| Payments volume (in millions) ⁽³⁾ | \$ 2,113 | \$ 3,099 | \$ 4,121 | \$ 1,168 |
| Dollar-based net expansion rate (end of period) ⁽⁴⁾ | n/a | 103% | 109% | 109% |

- (1) Subscribers are defined as unique physical business locations or, in the case of our Solo software level, individual practitioners who have subscribed to our cloud-based business management software platform as of the end of the period.
- (2) Average monthly revenue per subscriber is calculated by dividing the subscription, services and payments revenue generated in a given month by the number of subscribers at the end of the previous month. For periods greater than one month, the average monthly revenue per subscriber is the sum of the average monthly revenue per subscriber for each month in the period, divided by the number of months in the period.
- (3) Payments volume is the total dollar volume of transactions between our subscribers and their consumers utilizing our payments platform.
- (4) Our dollar-based net expansion rate is based upon our monthly subscription, services and payments revenue for a set of subscriber accounts. We calculate our dollar-based net expansion rate by dividing our retained revenue net of contraction and churn by our base revenue. We define our base revenue as the aggregate monthly subscription, services and payments revenue of our subscriber base as of the date one year prior to the date of calculation. We define our retained revenue net of contraction and churn as the aggregate monthly subscription, services and payments revenue of the same subscriber base included in our measure of base revenue at the end of the annual period being measured.

Non-GAAP Financial Measure**Adjusted EBITDA**

To provide investors with additional information regarding our financial results prepared in accordance with U.S. generally accepted accounting principles, or GAAP, we have presented Adjusted EBITDA, which is a non-GAAP financial measure defined by us as our net loss before stock-based compensation expense, depreciation and amortization, change in fair value of contingent consideration, change in fair value of preferred stock warrant, impairment charges, provision for income taxes, and other income (expense), net, which consisted of interest income and expense, and other miscellaneous other income (expense). We have provided below a reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure. We have

Table of Contents

presented Adjusted EBITDA in this prospectus because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short and long-term operational plans. In particular, we believe that the exclusion of the amounts eliminated in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

Although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

Adjusted EBITDA does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) the potentially dilutive impact of stock-based compensation; or (3) tax payments that may represent a reduction in cash available to us; and

Other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA along with other GAAP-based financial performance measures, including various cash flow metrics, net loss, and our GAAP financial results. The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods indicated:

| | Year Ended December 31, | | | Three Months Ended | |
|--|-------------------------|-------------|-------------|--------------------|------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | (in thousands) | | | | |
| Net loss | \$ (5,519) | \$ (16,247) | \$ (24,606) | \$ (4,844) | \$ (7,861) |
| Stock-based compensation expense | 1,484 | 427 | 1,737 | 336 | 1,140 |
| Depreciation and amortization | 1,004 | 3,479 | 4,574 | 1,034 | 1,218 |
| Change in fair value of contingent consideration | | 428 | (1,434) | (423) | |
| Change in fair value of preferred stock warrant | 515 | 302 | 283 | 22 | 150 |
| Impairment charges | | | 426 | | |
| Provision for income taxes | 13 | 63 | 116 | 34 | 6 |
| Other (income) expense, net | (8) | 47 | 136 | 15 | 53 |
| Adjusted EBITDA (unaudited) | \$ (2,511) | \$ (11,501) | \$ (18,768) | \$ (3,826) | \$ (5,294) |

Table of Contents

RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the following risks, together with all of the other information contained in this prospectus, including our financial statements and related notes, before making a decision to invest in our Class A common stock. Any of the following risks could have a material adverse effect on our business, operating results, and financial condition and could cause the trading price of our Class A common stock to decline, which would cause you to lose all or part of your investment.

Risks Related to Our Business

We have a history of losses, and our revenue growth rate may not sustain the levels experienced in recent years. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain profitability.

We have incurred a net loss in each year since our inception, including a net loss of \$16.2 million and \$24.6 million in the years ended December 31, 2013 and 2014, respectively, and \$4.8 million and \$7.9 million in the three months ended March 31, 2014 and 2015, respectively. For the year ended December 31, 2014 and the three months ended March 31, 2015, our Adjusted EBITDA was negative \$18.8 million and negative \$5.3 million, respectively. For the years ended December 31, 2013 and 2014, our revenue was \$48.7 million and \$70.0 million, respectively, representing a 44% growth rate. For the three months ended March 31, 2014 and 2015, our revenue was \$15.7 million and \$22.3 million, respectively, representing a 42% growth rate. In future years, our revenue growth rate may not sustain the levels reflected by our past performance. We may not be able to generate sufficient revenue to achieve and sustain profitability as we also expect our costs to increase in future periods. We expect to continue to expend substantial financial and other resources on:

developing our platform, including investments in our research and development team, the development or acquisition of new products, features and functionality, and improvements to the scalability, availability and security of our platform;

expenses related to international expansion in an effort to increase our subscriber base;

improving our technology infrastructure and hiring additional employees for our sales, operations and customer support teams;

strategic acquisitions;

sales and marketing expenses, including a significant expansion of our direct sales organization; and

general and administrative expenses, including legal, accounting and other expenses related to being a public company.

These investments may not result in increased revenue or growth of our business. If we fail to continue to grow our revenue, our operating results and business will be harmed.

We derive, and expect to continue to derive, a majority of our revenue and cash flows from our integrated cloud-based business management software and payments platform for the wellness services industry. If we fail to adapt this platform to changing market dynamics and subscriber preferences or to achieve increased market acceptance of our platform, our business, results of operations, financial condition and growth prospects would be adversely affected.

We derive, and expect to continue to derive, a majority of our revenue and cash flows from our integrated cloud-based business management software and payments platform for the wellness services industry. As such, market acceptance of this platform is critical to our success. Demand for our platform is affected by a number of factors, many of which are beyond our control, such as the timing of development and release of new products,

Table of Contents

features and functionality by our competitors, technological change and growth or contraction in our addressable market. If we are unable to meet the demands of our subscribers for products and services that meet their business needs and are easy to use and deploy, our ability to achieve widespread market acceptance of our platform will be undermined, and our business, results of operations, financial condition and growth prospects will be adversely affected.

Our business depends substantially on our subscribers renewing their subscriptions to our platform. Any decline in the rate at which subscribers renew their subscriptions would harm our future operating results.

The vast majority of our subscription revenue is derived from subscriptions to our platform that have monthly terms. For us to maintain or improve our operating results, it is important that our subscribers renew their subscriptions each month. In the past few years, we have expanded our platform beyond our core cloud-based business management software with the introduction of Connect and Connect Workplace, and in January 2015, we introduced a new tiered pricing model for our subscriptions. While significant planning has gone into the expansion of our platform and the revisions to our pricing model, these changes may adversely impact our ability to accurately predict the rate at which subscribers will renew their subscriptions, which may decline or fluctuate as a result of a number of factors, including our subscribers' satisfaction with our platform, our customer support, our prices, the prices of competing software systems, system uptime, network performance, data breaches, mergers and acquisitions affecting our subscriber base, the effects of global economic conditions and reductions in our subscribers' spending levels. If our subscribers do not renew their subscriptions or shift to less expensive software subscriptions, our revenue may decline and we may not realize improved operating results from our subscriber base.

If we are not able to enhance our platform to achieve market acceptance and keep pace with technological developments, our business would be harmed.

Our ability to attract new subscribers and increase revenue from existing subscribers depends in large part on our ability to enhance and improve our existing platform and to introduce new products and services, including products and services designed for a mobile user environment. To grow our business, we must develop products and services that reflect the changing nature of business management software and expand beyond our core scheduling and point-of-sale functionality to other areas of managing relationships with our subscribers, as well as their relationships with consumers. For example, in 2013, we expanded our platform to include Connect, and in 2015, we introduced Connect Workplace and began providing automated marketing functionality with our higher-priced subscriptions. The success of these and any other enhancements to our platform depends on several factors, including timely completion, adequate quality testing and sufficient demand. Any new product or service that we develop may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the market acceptance necessary to generate sufficient revenue. If we are unable to successfully develop new products or services, enhance our existing platform to meet subscriber requirements or otherwise gain market acceptance, our business and operating results will be harmed.

In addition, because our platform is available over the Internet, we need to continuously modify and enhance our platform to keep pace with changes in Internet-related hardware, software, communications and database technologies and standards. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments and changes in standards, our platform may become less marketable, less competitive, or obsolete, and our operating results will be harmed. If new technologies emerge that are able to deliver competitive products and applications at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete. Our platform must also integrate with a variety of network, hardware, mobile, and software platforms and technologies, and we need to continuously modify and enhance our products and services to adapt to changes and innovation in these technologies. Any failure of our platform to operate effectively with future

infrastructure platforms and technologies could reduce the demand for our platform. If we are unable to respond to these changes in a cost-effective manner, our platform may become less marketable, less competitive or obsolete, and our operating results may be adversely affected.

Table of Contents

Our payments platform is a core element of our business, and any failure to grow and develop our payment processing activities, or to anticipate changes in consumer behavior, could materially and adversely affect our business and financial results.

Our payments platform is a core element of our business. For the years ended December 31, 2013 and 2014, our payments platform generated 35% and 37% of our total revenue, respectively. For the three months ended March 31, 2014 and 2015, our payments platform generated 38% and 36% of our total revenue, respectively. Our future success depends in large part on the continued growth and development of our payment processing activities. If such activities are limited, restricted, curtailed or degraded in any way, or if we fail to continue to grow and develop such activities, our business may be materially and adversely affected.

The continued growth and development of our payment processing activities will depend on our ability to anticipate and adapt to changes in consumer behavior. For example, consumer behavior may change regarding the use of credit card transactions, including the relative increased use of cash, crypto-currencies, other emerging or alternative payment methods and credit card systems that we or our processing partners do not adequately support or that do not provide adequate commissions to Independent Sales Organizations such as us. Any failure to timely integrate emerging payment methods (e.g. ApplePay or Bitcoin) into our software, anticipate consumer behavior changes, or contract with processing partners that support such emerging payment technologies could cause us to lose traction among our subscribers, resulting in a corresponding loss of revenue, in the event such methods become popular among their consumers.

Our payment processing platform is subject to United States and international rules and regulations, many of which are still developing. If we fail to comply with such rules and regulations or if new laws, rules or practices applicable to payment systems restrict our ability to collect fees from our payment processing platform, our financial results could be materially and adversely effected.

Payments processing is subject to extensive regulation in the United States and other countries where we operate, and presents a wide range of risks. We may encounter increased regulatory scrutiny and new regulatory compliance requirements brought about by evolving laws, rules and regulations. Our payment processing activities are subject to price controls within the United States and other countries, and may be subject to an increase of price controls, including controls limiting the amount we are allowed to charge subscribers for processing credit card and debit card transactions. Certain countries limit the ability of foreign payment companies like us to conduct processing activities, and restrict the transfer of funds out of such countries. Changes in the laws, rules or practices applicable to payment systems such as VISA, MasterCard or American Express, including changes resulting in increased costs that we or our subscribers must pay, may force changes to our payments platform that could adversely affect our business.

If we incur an actual or perceived breach to our payment processing platform, we may incur significant liabilities and our brand and reputation may be damaged.

We may suffer an attack on our payments platform that results in a breach of consumer cardholder data. We maintain payment information for tens of millions of consumers on our payments platform, and we are a potential target for hackers and other parties attempting to steal credit card data via cyber-attacks or other means. As we increase our consumer base and our brand becomes more widely known and recognized, we may become more of a target for these malicious third parties. If we experience any actual or perceived data breach as a result of third-party actions, employee negligence or error, or malfeasance, whether or not resulting in the unauthorized acquisition of or access to cardholder data, we could incur significant liability, our business may suffer and our brand and reputation may be damaged. We could be required to pay extensive fines and costs related to any such data breach, including costs incurred to replace credit cards and cardholder information and provide security monitoring services, and we could

lose future sales and subscribers, any of which could harm our business and operating results. Such fines and costs could become due in one or two business days following such breach and exceed the amount of cash available to us, thereby impacting our ability to operate our business. In addition, a

Table of Contents

data breach or failure to comply with rules or regulations of payment systems could also result in the termination of our status as a registered Independent Sales Organization / Merchant Service Provider, thereby dramatically impairing our ability to continue doing business in the payments industry.

We are subject to risks related to our reliance on third-party processing partners to perform our payment processing services.

We depend on our third-party processing partners to perform payment processing services, which generate almost all of our payments revenue. Our processing partners may go out of business or otherwise be unable or unwilling to continue providing such services, which could significantly and materially reduce our payments revenue and disrupt our business. A number of our processing contracts require us to assume liability for any losses our processing partners may suffer as a result of losses caused by our subscribers, including losses caused by chargebacks and subscriber fraud. Thus, in the event of a significant loss by our processing partners, we may be required to pay-out a large amount of cash in one or two business days following such event and, if we do not have sufficient cash on hand, may be deemed in breach of such contracts. A contractual dispute with our processing partners could adversely impact our revenue. Certain contracts may expire or be terminated, and we may not be able to replicate the associated revenue through a new processing partner relationship for a considerable period of time. In addition, the failure of any third-party processing partner to provide accurate and timely reporting could adversely impact our ability to report accurate and timely revenue in accordance with GAAP.

We expect to initiate new third-party payment relationships or migrate to other third-party payment partners in the future. The initiation of these relationships and the transition from one relationship to another would require significant time and resources. New third-party payment processing relationships may not be as effective, efficient or well received by subscribers and their consumers, nor is there any assurance that we will be able to reach an agreement with such processing partners. Our contracts with such processing partners may be less lucrative. For instance, we may be required to pay more for payment processing or receive a less favorable revenue arrangement from our payment processing partners. We may also experience the termination of revenue streams due to such migrations.

We may undertake to directly perform certain payment processing services and expand the scope of payment processing services we provide, which may require a significant investment of time and resources, and expand our exposure to potential liabilities.

In the future, we may undertake to directly perform certain payment processing services that we currently depend upon our processing partners to perform, expand the scope of payment processing services we provide, offer additional payment processing services or otherwise undertake additional responsibilities and liabilities related to such payment processing services. For example, in the future, we may undertake to act as a registered payment facilitator or payment service provider of the payment systems, providing merchants with a suite of services, including payment processing and funding and accepting payments as the merchant of record on behalf of other merchants. Any of these endeavors would require a significant investment of time and effective management of resources before presenting any potential upside for us, and may dramatically expand the scope of our potential contractual liability or exposure in the event of a lawsuit. Further, we may fail to effectively execute in performing such an expansion of services.

If our network or computer systems are breached or unauthorized access to subscriber or consumer data is otherwise obtained, our platform may be perceived as insecure, we may lose existing subscribers or fail to attract new subscribers, and we may incur significant liabilities.

Use of our platform involves the storage, transmission and processing of our subscribers' proprietary data, including personal or identifying information regarding their consumers or employees. Unauthorized access to or security breaches of our platform could result in the loss of data, loss of intellectual property or trade secrets, loss

Table of Contents

of business, reputational damage, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws, regulations, or contractual obligations, and significant costs, fees and other monetary payments for remediation. For example, if our platform is breached in a way that constitutes a violation of HIPAA, we could face costs for remediation, criminal penalties, and/or monetary penalties up to \$1.5 million per year for violations of an identical provision of the law.

If any unauthorized access to our systems or data or any other security breach occurs, or is believed to have occurred, our reputation and brand could be damaged, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches and remediate our systems, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business may be impaired. If subscribers believe that our platform does not provide adequate security for the storage of personal or other sensitive information or its transmission over the Internet, our business will be harmed. Subscribers' concerns about security or privacy may deter them from using our platform for activities that involve personal or other sensitive information. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Our errors and omissions insurance policies covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all potential liability. Although we maintain cyber liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

Because the techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We may also experience security breaches that may remain undetected for extended periods of time.

Because data security is a critical competitive factor in our industry, we make statements in our privacy policies and terms of service, through our certifications to privacy standards, and in our marketing materials, describing the security of our platform, including descriptions of certain security measures we employ. Should any of these statements be untrue, become untrue, or be perceived to be untrue, even if through circumstances beyond our reasonable control, we may face claims, including claims of unfair or deceptive trade practices, brought by the U.S. Federal Trade Commission, state, local or foreign regulators and private litigants.

Because our platform can be used to collect and store personal information, domestic and international privacy and data security concerns could result in additional costs and liabilities to us or inhibit sales of our platform.

Personal privacy and data security are significant issues in the United States, Europe and many other jurisdictions where we offer our platform. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. The U.S. federal and various state and foreign governments have adopted or proposed limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information and other data relating to individuals, and the Federal Trade Commission and numerous state attorneys general are applying federal and state consumer protection laws to enforce regulations related to the online collection, use and dissemination of personally identifiable information and other data. Some of these requirements include obligations on companies to notify individuals of security breaches involving particular personal information, which could result from breaches experienced by us or our service providers. Even though we may have contractual protections with our service providers, notifications related to a security breach could impact our reputation, harm customer confidence, hurt our sales and expansion into new markets or cause us to lose existing customers.

Further, many foreign countries and gove