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2014 IPO SEC comment letter trends

Technology

Technology Institute
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Highlights of recent SEC comment letters issued to IPO filers from the technology sector

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Contents

Message from Cory Starr

Buoyed by the return of China to the U.S. equity markets, rising investor confidence, and an improving global economy, the technology sector witnessed another year of increased IPO activity. Looking forward, the market appears poised to remain strong and build upon the recent highs.

In the second edition of this publication, we have analyzed the SEC comment letters issued to technology companies whose public offerings went effective between April 2013 and June 2014. These filers span subsectors such as software & internet, computers & networking, and semiconductors. We have once again highlighted several areas that were of particular interest to the SEC staff as they reviewed these initial filings. This publication discusses the focus areas and provides examples of comments received by registrants. We have also included a section describing the comment letter process and best practices for responding to the SEC staff's comments. An IPO in today's marketplace requires tremendous planning and coordination. Our goal is to provide you with relevant information to assist you with some of the multiple workstreams involved in the IPO process, particularly the drafting of the registration statement and preparation of the audited financial statements. We hope you find this information helpful, and we look forward to working with you to address the issues described herein, so you can put more of your focus on your business.

Please reach out to your engagement team, the PwC contacts listed at the end of the publication, or me to discuss this information further or to address any of your questions.

Best regards,

Cory Starr
U.S. Technology
Assurance Leader

SEC developments

2014 was a busy year at the SEC. Although there were only a few changes in senior personnel (compared to 2013 when several high-profile staff positions were filled and three Commissioners, including a new Chair, were appointed), one notable change was the appointment of Jim Schnurr as the SEC's Chief Accountant. Schnurr joined the SEC staff in October and will play a major role in shaping the SEC's agenda at a time when accounting, auditing and financial reporting are key areas of focus. This focus reflects a common understanding that transparent, accurate and reliable financial reporting forms the foundation of trust which allows our capital markets to function properly and provides the transparency and confidence investors need when making decisions.

Following through on initiatives started in the prior year, 2014 has seen a high level of activity in the SEC's enforcement program, with renewed attention to financial fraud, issuer disclosure, and gatekeepers. The Enforcement Division's Financial Reporting and Audit Task Force—a small group of experienced attorneys and accountants charged with developing state-of-the art technology tools to identify financial fraud and incubating cases to be handled by other groups—is one example of how the SEC has increased its focus. The Task Force monitors high-risk areas, analyzes industry performance trends, reviews restatements, revisions, and class action filings as well as academic research. It is also working on the SEC's Accounting Quality Model—sometimes referred to as Robocop—which is being developed to use data analytics to assess the degree to which a company's financial reporting appears noticeably different from its peers. The Task Force was very busy during 2014 with even more activity expected in 2015.

The SEC staff has continued to focus on internal control over financial reporting, especially on how companies evaluate deficiencies relating to immaterial financial statement errors. The SEC staff signaled its intention to increase its focus in this area in late 2013, and this has led to more frequent comments and questions in 2014, with more likely to come in 2015.

Recognizing that full and fair disclosure is a central goal of the U.S. securities laws and is critical to the fulfillment of the SEC's core mission, during 2014 the SEC launched a "Disclosure Effectiveness" initiative. Through this initiative, the SEC is looking for ways to update and modernize its disclosure system and to eliminate duplicative or overlapping requirements, while continuing to provide material information. Trying "to put better disclosure into the hands of investors," the SEC staff is taking a fresh look at the question: what information do investors need to make informed decisions? In addition to looking at the specific disclosures companies provide, the SEC staff is also looking closely at *how* disclosures are provided, particularly in light of advances in technology and changes in how information is consumed. For instance, the SEC staff might explore a “company file” approach through which investors would access company-specific information on the SEC's website through tabs such as “Business information,” “Financial information,” “Governance information” and “Executive compensation,” instead of searching for that same information by combing through a reverse chronological list of filings. The SEC staff has been clear that reducing disclosure is not the objective of this important project (indeed, they have said that updating the requirements may well result in additional disclosures), but they have indicated that they believe the initiative can reduce costs and burdens on companies.

Even before any rule changes are adopted (or even proposed), companies already have the ability to improve their disclosures by reducing redundancy, removing out-of-date, unnecessary information, and refining disclosures to focus on those issues which are truly applicable and material. The SEC staff has been encouraging companies to experiment with the presentation of the information in their filings with the objective of improving the transparency, quality and relevance of their disclosures.

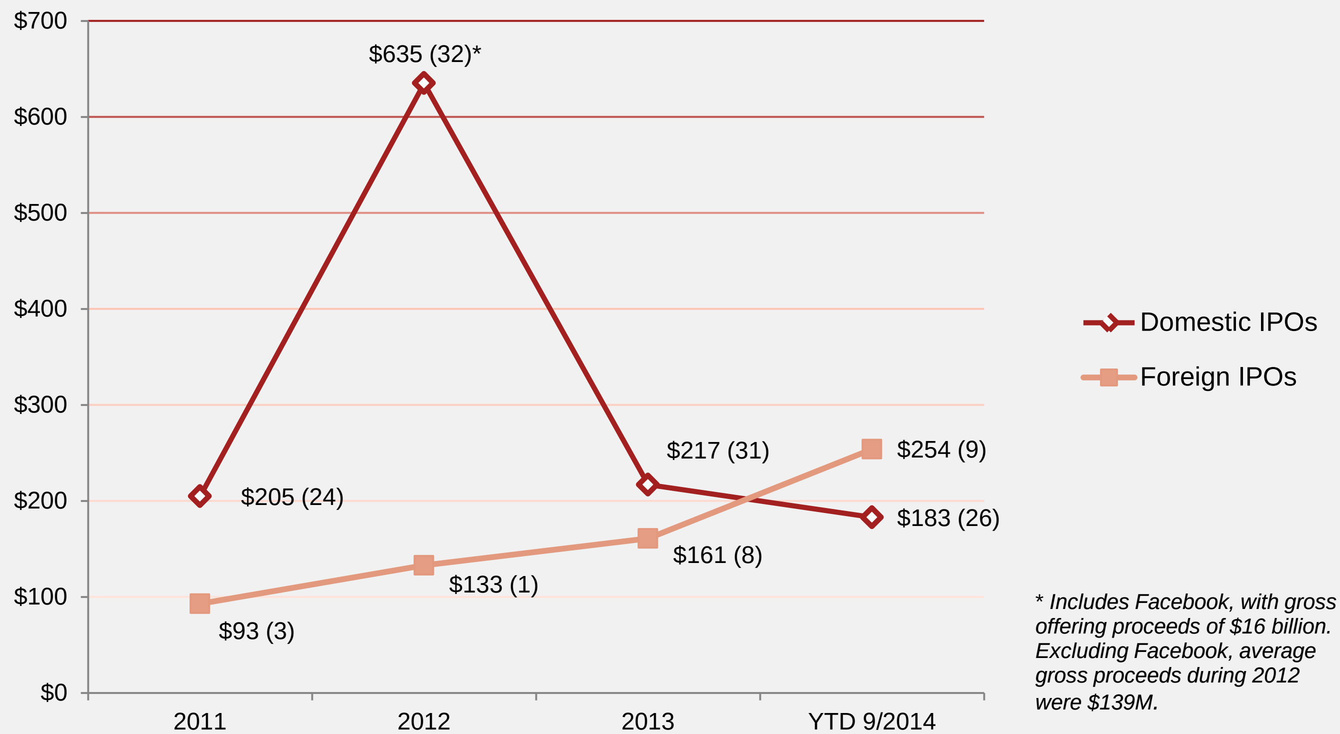
John A. May
SEC Services Leader

Overview

U.S. technology IPO activity surges amid growing investor confidence and rising equity markets

2013 saw 39 technology companies make their debut in the U.S. equity markets, up 18% from 33 in 2012. 2014 has already seen 35 technology IPOs for the first nine months (see Figure 1) and is on pace to meet or exceed prior year levels. This growth is entirely attributable to the increase in foreign private issuers choosing to enter the U.S. market – eight foreign technology companies completed their IPOs in the U.S. in 2013 compared to just one in 2012. This trend is continuing with nine foreign companies completing their IPOs in the U.S. market to September 2014. Technology IPOs of Chinese companies made a comeback in the last quarter of 2013 with seven IPOs in the past 12 months raising gross aggregate proceeds of $1.1 billion, which likely reflects the pent up demand resulting from the IPO freeze in China that was lifted by the Chinese Securities Regulatory Commission in late 2013. Israeli technology companies also had a significant presence with a total of three IPOs in the U.S. in 2013 and 2014 generating gross aggregate proceeds of $1.1 billion.

Figure 1. Average gross proceeds of domestic and foreign IPOs, in $ millions (number of IPOs)

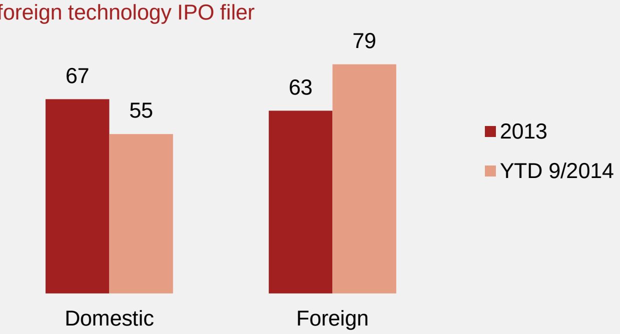


** Includes Facebook, with gross offering proceeds of $16 billion. Excluding Facebook, average gross proceeds during 2012 were $139M.*

Overview

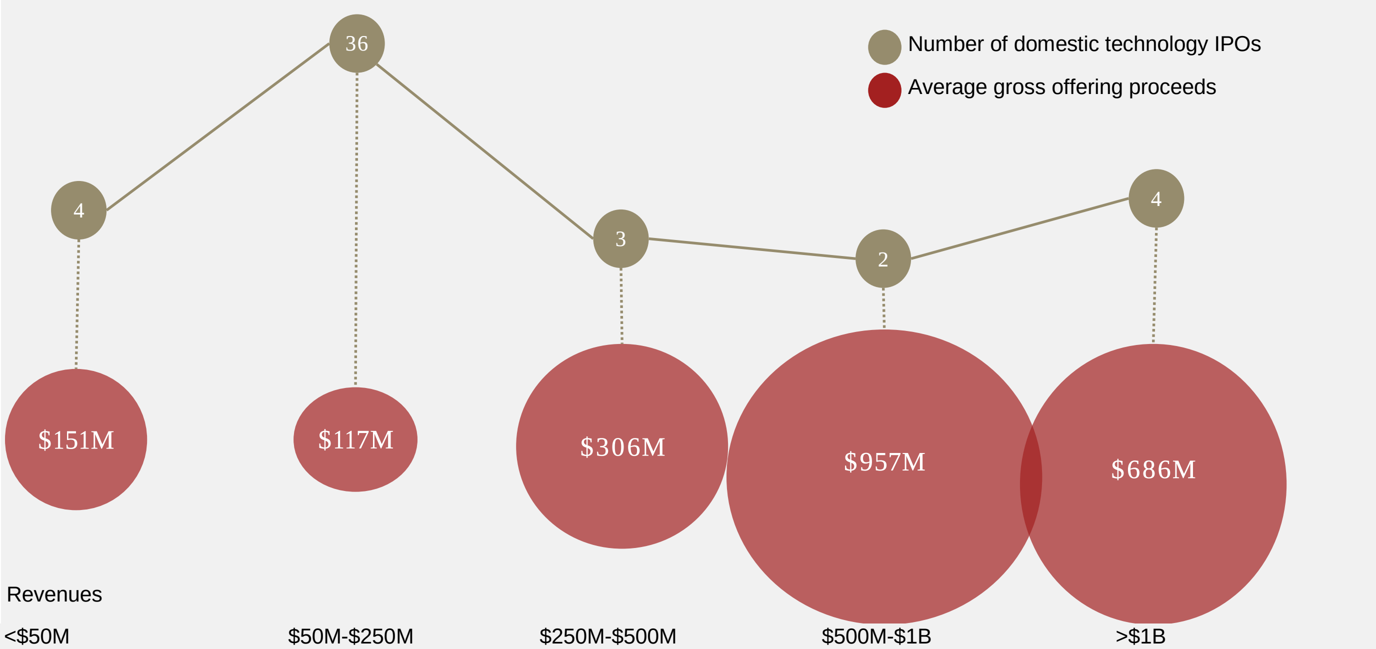
SEC comment letter trends related to domestic technology IPOs are discussed in detail later in this publication. Foreign registrants undergoing an IPO are subject to the same SEC review process with respect to their filings of registration statements on Form F-1, although their reporting requirements differ in certain important respects. The SEC staff issued an average of 67 comments per domestic IPO filer in calendar 2013 compared to 63 per foreign IPO filer during the same period. As shown in Figure 2, these numbers diverged significantly in the first nine months of 2014, with average comments per foreign IPO filer increasing to nearly 80.

Figure 2. Average number of comments per domestic and foreign technology IPO filer



Our prior study of technology IPO SEC comment letter trends covered a period of 27 months ended March 31, 2013. Since then (from April 1, 2013 to June 30, 2014), over 80% of domestic technology companies that completed their equity IPOs had revenues of less than $250 million in the latest fiscal year presented in their Form S-1 (see Figure 3). The average deal size in the sector was about $212 million.

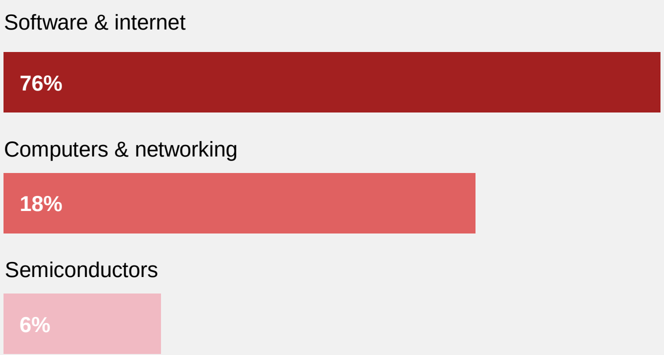
Figure 3. Domestic technology IPOs by revenue and gross offering proceeds



Overview

The software & internet subsector comprised over 75% of all domestic technology IPOs between April 2013 and June 2014 (see Figure 4).

Figure 4. Number of domestic IPOs by subsector



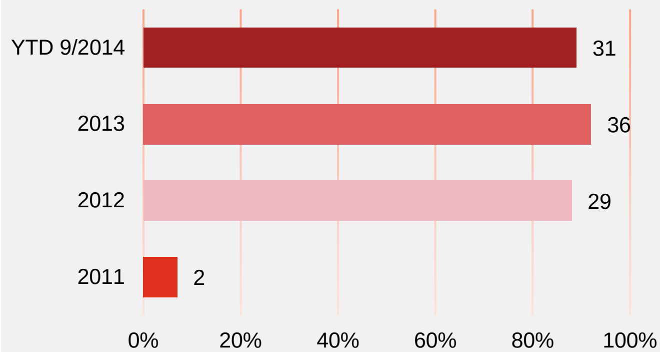
Emerging growth companies

Aside from the growth in China IPOs in the U.S., the sustained high volume of domestic technology IPOs may be due in part to the simplified registration framework established in 2012 by the Jumpstart Our Business Startups Act (JOBS Act) which was designed to provide companies with easier, more cost-effective access to capital markets, spur economic expansion and encourage job creation.

Under the JOBS Act, special accommodations are available to emerging growth companies (EGCs). An EGC is defined as an issuer that had total annual gross revenue of less than $1 billion during its most recently completed fiscal year. These accommodations include but are not limited to (1) access to a confidential filing process until 21 days prior to the issuer's roadshow, (2) the ability to present two years of audited financial statements instead of the three years typically required, (3) the omission of certain selected financial data preceding the initial audited year presented, (4) no requirement to obtain an audit of the company's internal control over financial reporting (ICFR) from their independent auditors, and (5) the ability to adopt new or revised accounting guidance applicable to both public and private entities on the same timeline as permitted for private companies.

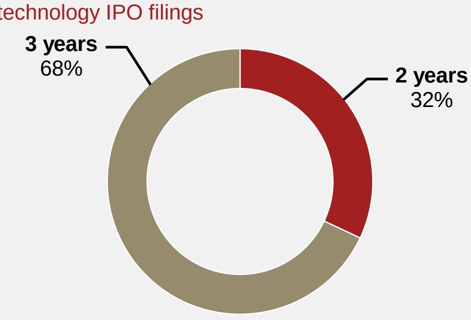
Since the enactment of the JOBS act in early 2012, most technology companies entering the U.S. equity market have met the definition of an EGC, which is not surprising considering that the majority of IPO filers reported annual revenues of less than $250 million (see Figure 5).

Figure 5. Emerging growth companies as a percentage of all technology IPOs



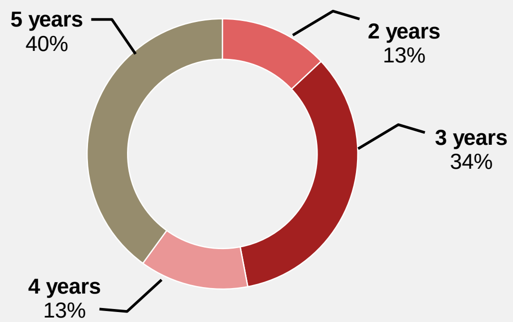
Most EGC technology companies took advantage of the scaled disclosure requirements and other accommodations. Since the introduction of the JOBS Act, 32% of domestic EGC filers included only two years of audited financial statements in their Form S-1 rather than the traditional three years required for non-EGC filers (see Figure 6). The number has increased from 25% for the first year of the JOBS Act.

Figure 6. Number of years of audited financial statements included in EGC technology IPO filings



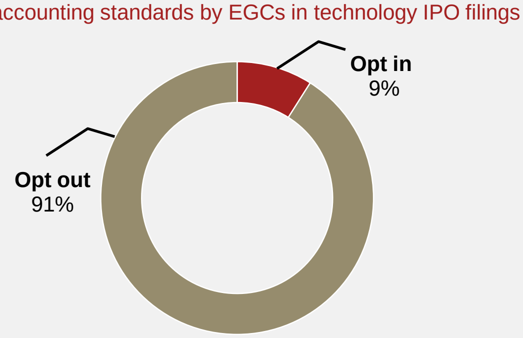
60% of technology EGC filers included less than five years of selected financial data in their Form S-1 registration statement, which is generally consistent with the first year of the JOBS Act (see Figure 7).

Figure 7. Number of years of selected financial data included in EGC technology IPO filings



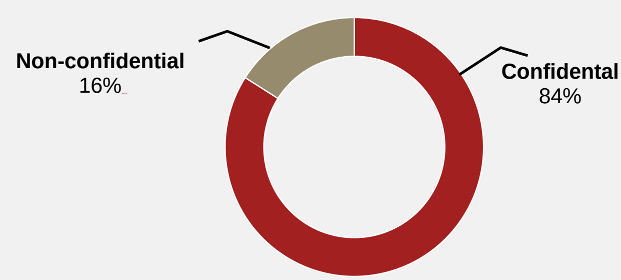
As illustrated in Figure 8 below, only 9% of the EGCs opted to adopt new or revised accounting standards using the private company timeline. This percentage has come down significantly from the first year of the JOBS Act when nearly a quarter of all technology EGCs elected the private company adoption schedule. Many registrants cite concerns about the lack of comparability to the financial statements of non-EGCs as being one of the major deterrents to taking advantage of this provision.

Figure 8. Private company timeline for the adoption of new or revised accounting standards by EGCs in technology IPO filings



More than two years after the JOBS Act was enacted, confidential submissions remain exceptionally popular with IPO filers, as they allow companies the protection of not having to divulge confidential information publicly if they decide that they will no longer pursue their initial public offering. An overwhelming 84% of technology sector EGCs availed themselves of a confidential submission as the first step of their initial public offering reporting process (see Figure 9). The submission of a confidential draft registration statement does not constitute a filing under the Securities Act, but it must be substantially complete for the SEC staff to review. An EGC may publicly announce for strategic reasons that it has submitted a confidential registration statement for the SEC staff's review. For example, some EGCs may be engaged in a "dual-track" M&A process and may want potential acquirers to be aware of the pending IPO.

Figure 9. Confidential submission by EGCs in technology IPO filings



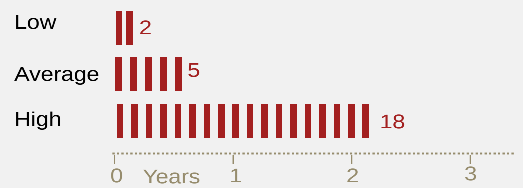
After completing its IPO, an issuer that is an EGC as of the first day of its fiscal year will continue to be an EGC until the earliest of one of four possible disqualifying events. Once EGC status is lost, it generally cannot be regained. EGCs should carefully consider the four disqualifying provisions because current interpretive guidance does not provide any transition period for companies that exit EGC status. In other words, an EGC status change will be applied from the date on which the change occurred. An issuer that exits EGC status should ensure that its annual report for the year of the change in EGC status conforms to the requirements for a non-EGC public company (taking into account other applicable designations, such as accelerated filer status, newly public company status or smaller reporting company status).

Comment letter trends

The IPO process can stretch out, including multiple rounds of SEC comment letters. Among the domestic technology IPOs analyzed, including both EGC and non-EGC filers, the average comment letter period, which we have defined as the date from filing (or confidentially submitting) the initial Form S-1 to receiving notice of effectiveness, was approximately five months (see Figure 10), down from eight months in our prior study.

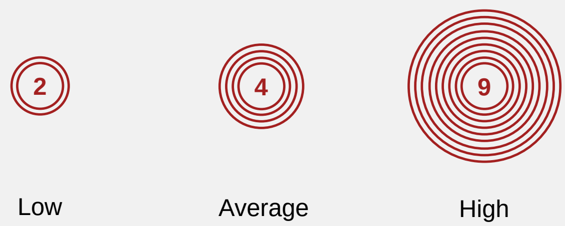
Overview

Figure 10. Duration of comment letter process, months



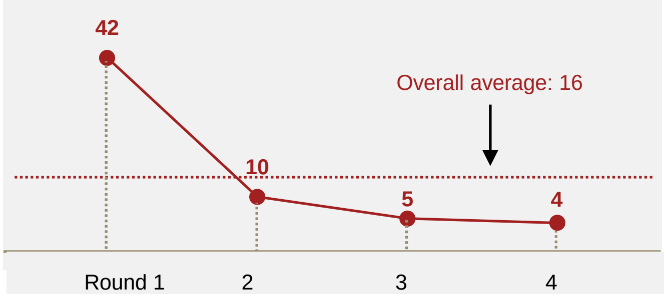
On average, technology IPO filers received four rounds of SEC comment letters, although the range was wide (see Figure 11).

Figure 11. Comment letter rounds



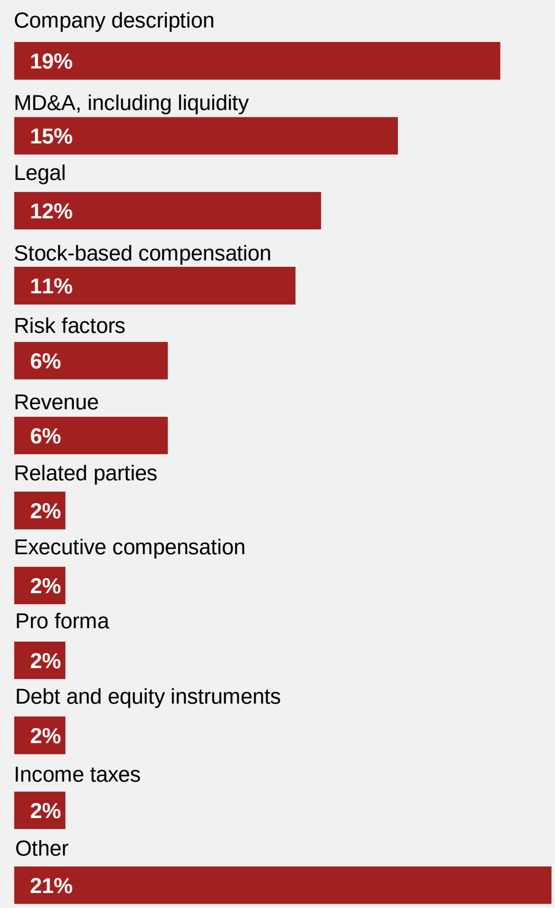
While IPO filers received an average of 16 comments per round, the number of comments dropped significantly with each successive round (see Figure 12).

Figure 12. Average comments per comment letter



In their review of IPO registration statements, the primary financial statement areas that the SEC staff has focused on were revenue recognition and stock-based compensation, including cheap stock. This is not surprising, as these are areas requiring significant judgment and estimates. Together, these areas accounted for approximately 17% of all comments, and a majority of the comments relating to the financial statements (see Figure 13).

Figure 13. Comments by topical area

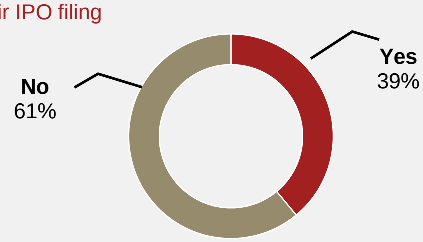


Revenue comments across the various technology subsectors addressed software revenue recognition, the accounting for multiple-element arrangements, gross vs. net revenue presentation, and reseller arrangements. The comments were consistent with the SEC staff's expectation of robust and transparent disclosures about how a company earns revenue and the related critical accounting policies and estimates.

Cheap stock and stock-based compensation questions continue to be prevalent in the IPO environment, with the SEC looking for a clear understanding of any changes in the company's valuation for at least a year prior to the offering. In February 2014, the SEC staff updated the Financial Reporting Manual (FRM) to describe the reduced disclosures required related to share-based compensation in IPOs. Specifically, a company's critical accounting policy disclosures should include discussion of the methods and material assumptions used to determine the fair value of the company's stock. Any comments issued by the SEC staff about unusual changes in the stock valuations are intended only to confirm the appropriateness of the accounting and not necessarily to request additional disclosures in the registration statement.

On a separate note, a look at recent comment letter trends for existing registrants reveals a significant focus by the SEC staff on internal control over financial reporting. While no similar trend exists for companies going through the initial registration process (since newly public companies are not subject to an internal control assessment by either management or the independent auditor), nearly 40% of domestic technology companies that completed their IPOs in the period of our study reported a material weakness (see Figure 14). This is likely reflective of the relatively small size of these companies and indicates the need for additional focus on strengthening internal control, with a view towards increasing the quality of financial reporting.

Figure 14. Domestic issuers reporting a material weakness in ICFR in their IPO filing



Some key areas of focus for the SEC staff are related to portions of the registration statement outside of the issuer's financial statements or MD&A. For example, legal comments include questions about the filing of material agreements as exhibits, confidential treatment requests, undertakings required to be made by the registrant, inquiries about underwriters, legal counsel opinions and graphic information presented in the prospectus.

The company description section of the registration statement provides information about the issuer's business, industry, competitive environment, customers, backlog, intellectual property rights, and geographical presence, among other things. The SEC staff has challenged the completeness and accuracy of the registrant's disclosures and will question internal consistency among different sections of the document.

Companies should ensure that any claims and assertions made in the filing are factually supportable and balanced with information about the risks associated with the company's business.

Related party comments center on the clear and transparent disclosure of existing relationships, including the dollar value of related party transactions, the nature of the relationship, and the registrant's policies for review, approval or ratification of such transactions.

Included in the "other" category are comments on a variety of topics. Some that feature more prominently are segments, business combinations, capitalization table, loss contingencies, and impairment of goodwill and long-lived assets.

Methodology

Our study is based on comments issued by the SEC staff in connection with initial public offerings that went effective between April 1, 2013 and June 30, 2014, unless otherwise noted. We included only registrants reporting under U.S. GAAP that generated deal proceeds exceeding $40 million. Our analysis included filings on Form S-1 (public filings) and DRS (confidential submissions) and related amendments. We have highlighted the key areas that the SEC staff has focused on, with each section supported by the text of actual comments that issuers have received. The following analysis was derived from nearly 3,000 comments issued to 49 companies. The companies represent technology subsectors including software & internet, computers & networking, and semiconductors. Each subsector includes the following SIC codes:

- Software & internet—7370, 7371, 7372, 7373, 7374, and 7389
- Computers & networking—3570, 3571, 3572, 3576, 3577, 3578, 3661, 3663, 3669, 3812, 3825, 3861, 4899, 5045, and 5065
- Semiconductors—3670, 3672, 3674, and 3679

Certain registrants may be involved in multiple technology subsectors. For consistency of evaluation, the analysis was based solely on the SIC codes indicated on the SEC's EDGAR website for each registrant.

Revenue

Revenue recognition for technology companies is an area with many complexities and judgments.

The SEC staff frequently requests detailed disclosures about how a company earns revenue and asks probing questions about the related recognition policies detailed in the notes to the financial statements and in the Critical Accounting Policies and Estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A). In the technology sector, revenue recognition comments center around several key themes:

Multiple-element arrangements

Technology companies often provide multiple products and/or services to their customers as part of a single arrangement. These deliverables may include software, hardware, and services and can be provided up front or over time. The SEC staff asks questions about the registrant's conclusion regarding their determination of separate units of accounting (which generally results in earlier recognition of revenue). They also want to confirm that the allocation of the arrangement consideration to the separate deliverables has followed the prescribed order in the hierarchy of vendor-specific, objective evidence of fair value (VSOE), third-party evidence (TPE), and best estimate of selling price (ESP).

1 We note your disclosure that, in general, the company's products and services qualify as separate units of accounting. Please tell us what factors you considered in determining that your installation services have standalone value. We refer you to the guidance in ASC 605-25-25-5.

2 We note that you have established vendor-specific objective evidence (VSOE) of fair value for post-contract support such as maintenance using the stated renewal rates. Please describe, in detail, the methodology for establishing VSOE including the range of renewal rates and tell us the percentage of your customers that actually renew at such rates.

3 We note you use vendor-specific objective evidence ("VSOE") in determining the selling price, if available, when applying the relative selling price method. Please tell us what you consider to be a "reasonably narrow pricing range" in determining the VSOE.

4 We note that you establish BESP primarily based on historical transaction pricing whereby you evaluate whether a majority of the prices charged for a product, as represented by a percentage of the list price, fall within a reasonable range. Please tell us for which elements in your arrangements you typically establish fair value based on BESP and for which you use VSOE. Also, further explain how you evaluate historical pricing for products in determining BESP and tell us what you consider to be a reasonable range in your analysis.

5 We note that you have multiple-element arrangements that include subscription and support services as well as professional services. We further note that professional services are accounted for separately in these arrangements when there is standalone value to the customer. Please revise your disclosures to more clearly explain how you consider the relative selling price hierarchy when allocating the arrangement consideration to the different elements in these arrangements including subscription and support services. Your revised disclosures should include a discussion of the significant factors, inputs, assumption, and methods used to determine selling price (whether VSOE, third-party evidence, or estimated selling price) for the significant deliverables. We refer you to ASC 605-25-50-2(e).

Software and service revenue recognition

Software licensing arrangements may include software and hardware components, which brings up questions about how the two function together. Additionally, software-as-a-service (SaaS) arrangements, where customers never take possession of the software, remain popular in the marketplace, raising comments about the timing and appropriate period for revenue recognition. The SEC staff has inquired as to whether the services have standalone value in a multiple-element arrangement and whether the revenue should be recognized over the contractual term or the estimated length of the customer relationship. Finally, the SEC staff will also raise questions around the revenue recognition period for professional services arrangements, to understand if revenue is recognized in a manner consistent with how the benefit is conveyed to the customer.

Revenue

6 Tell us how you considered whether the software components and non-software components function together to deliver the tangible product's essential functionality. We refer you to ASC 985-605-15-4A. In addition, tell us how you determined that each non-software component has stand-alone value. We refer you to ASC 605-25-25-5.

7 We note that the subscription fees typically begin the first month following the contract execution, whether or not you have completed the solution's implementation. Please describe the nature of the implementation services provided and whether you consider these services to be essential to the functionality of the subscription services. See SAB 13(A)(3)(c).

8 Please clarify whether your software-as-a-service based subscription services include set- up fees. If so, tell us whether these set-up services have standalone value and describe the factors you considered in making this determination. If the set-up fees do not have standalone value, please clarify over what period you recognize the set-up fees and tell us how you determine the amount to defer for such fees.

9 You state that you recognize revenue from professional services that do not have stand- alone value over the subscription period. Tell us why attribution period should not be the estimated customer life instead of the contractual subscription period. We refer you to footnote 39 of ASC 605-10-S99 and SAB Topic 13.A.3(f)-Question 1.

Gross vs. net revenue presentation

Today's technology offerings were not envisioned when the original guidance related to assessing gross vs. net revenue presentation, codified in ASC 605-45, was written. This has caused fundamental challenges when assessing revenue presentation, as concepts like physical inventory loss may not always be applicable in today's increasingly virtual world. A company must assess whether it acts as a principal or an agent in an arrangement with the end customer. The SEC staff has asked for a detailed analysis of the gross and net indicators to assess the appropriateness of a company's conclusions, especially for emerging business models such as advertising. They may request information about the key terms of the underlying contracts as part of their assessment. Whether the company is the primary obligor in the arrangement, how it characterizes itself and its products within a particular contract, and its ability to independently negotiate with both end customers and suppliers, are important considerations in making the final determination.

10 We note that based upon ASC 605-45 you concluded that you meet the criteria for gross presentation. Please describe the elements of your arrangements that were evaluated under ASC 605-45 and provide us with the details of your analysis including your consideration of the criteria in ASC 605-45-45-4 through 14.

11 We note that you report revenue on a net basis because you have determined that you are not the principal in the purchase and sale of advertising inventory. Please describe the significant terms of your revenue arrangements and the extent of your involvement in a transaction between buyer and seller. Further, provide an analysis that supports your presentation taking into consideration all of the factors outlined in ASC 605-45-45.

12 You indicate that the terms of revenue recognition through resellers are "substantially" the same as the terms of revenue recognition through your direct sales channel. Please clarify why the terms are only "substantially" the same and how the terms are different. Additionally, please discuss the analysis of ASC 605-45-45-7 from the perspective of the Company. We note the analysis has been discussed from the perspective of the reseller. Finally, please clarify who controls the product specifications in regards to ASC 605-45-45-11.

Reseller arrangements

Technology companies in the semiconductor space, for example, often sell their products through distributors or resellers rather than directly to end customers and may recognize revenue using either a "sell-in" or "sell-through" model. The decision which model to use depends on whether the selling price is fixed or determinable at the time of sale. The "sell-in" model results in revenue being recognized at the time products are sold to a reseller or distributor, with a corresponding reduction for expected returns. The "sell-through" model results in revenue being recognized when products are sold to the end customers, because of significant return rights, price protection, and other price adjustments which cannot be reliably estimated. This challenge is compounded in an industry with short product lifespans and constant pricing pressure. The SEC staff's comments focus on the nature of the existing rights related to returns, price adjustments or refunds and warranties and their impact to a company's revenue recognition policy.

Revenue

13 Please clarify your accounting policies for sales made to distributors or resellers. That is, please clarify whether you use the "sell-in" or the "sell-through" method of accounting and the factors you considered in making this determination. Also, tell us whether you offer your resellers any concessions such as rights of return or price protection and if so, tell us how you account for such contingencies.

14 Tell us and clarify your policy to disclose when you recognize revenues generated through sales by resellers. State whether you offer resellers rights of returns similar to your own customers and tell us how your revenue recognition policy complies with ASC 605-15-25. Describe significant assumptions, material changes and reasonably likely uncertainties in estimating the allowance for estimated future returns.

Management's discussion and analysis

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is a critical component of registrants' communications with investors.

The key objectives of MD&A are to provide a narrative explanation of the financial statements that enables investors to see the company through the eyes of management, to offer context to the financial statements, and to provide information that allows investors to assess the likelihood that past performance is indicative of future performance. We have found that the majority of SEC staff comments in this area are not aimed at meeting specific technical requirements but rather at enhancing the quality of disclosures to meet these objectives:

The requirements themselves are set forth in Item 303 of Regulation S-K, which identifies five categories of disclosure in MD&A: liquidity, capital resources, results of operations, off-balance-sheet arrangements, and contractual obligations. Additional guidance is also contained in Financial Reporting Release (FRR) 36 and FRR 72. More recently, following the release of its December 2013 Report on Review of Disclosure Requirements in Regulation S-K mandated by the JOBS Act, the SEC has indicated that the Division of Corporation Finance will pursue a project to develop recommendations focused on improving and streamlining disclosure requirements. While this project may result in reduced costs and burden on companies and eliminate duplicative disclosures in MD&A, its primary objective is to improve the quality and transparency of information provided to investors, which may lead to new disclosure requirements.

In the meantime, the comment letter process has reinforced the well-established MD&A objectives that disclosures should be: 1) transparent in providing relevant information, 2) tailored to the company's facts and circumstances, 3) consistent with the financial statements and other public communications, and 4) comprehensive in addressing the many business risks that exist in today's economic environment. Executive overview, results of operations, and liquidity and capital resources are the primary areas of MD&A that have received the most attention in SEC comment letters related to IPO registration statements.

Executive overview

The SEC staff is looking for a balanced executive-level overview that encompasses the most significant measures used by management in evaluating operating performance. This section should provide the context for MD&A, but should not just repeat information found in the remainder of the discussion.

1 Please consider expanding your overview to provide insight into material opportunities, challenges and risks, such as those presented by known material trends and uncertainties, on which the company's executives are most focused for both the short and long term and the actions that you are taking to address these opportunities, challenges and risks.

2 Please consider revising your overview section to provide a balanced, executive-level discussion that identifies the most important themes or other significant matters with which management is concerned in evaluating the company's financial condition and operating results. In this regard, please discuss any known trends, demands, commitments, events and uncertainties that pose a risk or threat to the company to balance the discussion of the opportunities you identify. See Item 303(a) of Regulation S-K and SEC Release No. 33-8350. For example, consider discussing the impact on your profitability of adding and supporting new installed customers compared to new registered users of installed customers and any steps that you are taking to achieve sufficient scale and productivity so that the cost of adding and supporting new customers does not adversely affect your margins.

Management's discussion and analysis

Results of operations

SEC staff comments have reminded registrants that the results of operations section should provide readers with a clear understanding of the significant components of revenues and expenses and events that have resulted in or are likely to cause a material change in the relationship between costs and revenues.

The SEC staff has frequently issued comments specifying that MD&A should not simply repeat information provided elsewhere in the filing; rather, it should explain the underlying drivers behind changes in the financial position, results of operations, and cash flows of registrants. Increasingly, registrants are being challenged to quantify the impacts that such factors have had, especially when an account has been impacted by multiple factors.

3 Please revise your results of operations to discuss the underlying reasons for changes in your operating measures from period to period. Your discussion regarding results of operations should not consist merely of numeric dollar and percent changes measured from period to period of various line items in your income statement. For example, we note that an increase in your SG&A expense for the three and six months ended June 30, 20X3 was partially offset by a decrease in bad debt expense. However, you do not discuss the underlying reasons for this decrease in bad debt expense or whether management believes that this trend will continue. Please revise your disclosure throughout your MD&A to cite the reasons behind changes from period to period. In addition, with respect to each material change identified, please state whether management believes that the change represents a trend and specify what actions management is taking to address the trend.

4 We note several instances in which your discussion of the results of operations does not quantify sources of material changes. For example, you disclose that services revenue increased during the three months ended March 31, 20X3 "primarily due to the acquisition of new customer and an increase in the number of users within our existing customer base." Where a material change is attributed to two or more factors, the contribution of each identified factor should be described in quantified terms for each of the periods discussed. See Item 303(a)(3)(iii) of Regulation S-K and Section III.D of SEC Release No. 33-6835. Please revise your disclosures accordingly.

5 We note that your discussion of revenues is limited to percentage changes in certain metrics. For all periods presented, please expand the discussion to include an analysis of changes in the various types of revenues from period to period based on changes in price and changes in volume. See Item 303(a)(3) of Regulation S-K for guidance.

6 Please explain to us, in greater detail, why you believe that the disclosure of the historical number of customers and average revenues from enterprise and mid-market customers for prior periods presented is not useful to an investor. In this regard, it would appear that this information may be useful when analyzing the changes in revenues and any trends in your business. We refer to you Section III.B.1 of SEC Interpretive Release No. 33-8350.

Liquidity and capital resources

A key objective of the liquidity and capital resources discussion is to provide a clear picture of the registrant's ability to generate cash and to meet existing known or reasonably likely future cash requirements. The SEC staff expects the liquidity and capital resource discussion to address material cash requirements, sources and uses of cash, and material trends and uncertainties related to a registrant's ability to use its capital resources to satisfy its obligations.

7 Your discussion of cash flows from operating activities appears to be a recitation of the changes in line items and other information evident from your financial statements. Please revise your disclosures to focus on the primary drivers of and other material factors necessary to an understanding of your underlying cash flows and the indicative value of historical cash flows. As an example, please consider revising to disclose the days' sales outstanding at each balance sheet date and the impact it has on your cash flows. We refer you to Section IV.B of SEC Interpretive Release 33-8350.

8 We note that you believe your existing cash and cash flow from operations, together with the proceeds from this offering and the undrawn balance under your credit facility will be sufficient to meet your working capital requirements for at least the next 12 months. Please revise to disclose the minimum period of time that you will be able to conduct planned operations using only currently available capital resources without regard to the proceeds you expect to receive from the offering. We refer you to Item 303(a)(1) of Regulation S-K and Instructions 2 and 3 to Item 303(a) of Regulation S-K for additional guidance.

9 Please revise your disclosures to indicate whether you are in compliance with the various reporting and financial covenants as of June 30, 20X3.

10 Please revise to discuss known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to impact your liquidity or operations in any material way, as well as the current and potential future impact of these trends and conditions on your liquidity, operations and capital resources, giving particular consideration to the fact that your primary source of liquidity is cash flows from operations. Please also address the impact that your acquisitions, as opposed to solely organic growth, have had and are expected to have on your results of operations, including revenues and costs. Please refer to Item 303(a)(1) and (2) of Regulation S-K.

11 Please revise to describe operating and financial restrictions that may be triggered should you breach the restrictive covenants of your credit facility.

12 Please revise to disclose the material terms of your master credit facility.

Stock-based compensation

The valuation of stock-based compensation is a central area of focus in initial public offerings.

"Cheap stock" refers to the issuance of an equity security (e.g., options, warrants, common stock, or restricted stock) during the 12 months preceding an IPO for a price (or with a strike price) that is below the expected IPO price. Typically, this issue arises in connection with the granting of employee stock options. The SEC staff's view is that a company's IPO pricing range is indicative of the fair value of its stock leading up to the IPO and they are, therefore, skeptical of valuations in the 12 months prior to the filing that are significantly lower than that range.

During early 2014, the SEC staff revised the FRM guidance regarding a company's critical accounting estimate disclosures related to stock-based compensation. These disclosures are included as part of MD&A and should include:

- The methods that management used to determine the fair value of the company's shares,
- The nature of the material assumptions involved, and
- The extent to which are the estimates are considered highly complex and subjective.

In addition, the SEC staff clarified that their comments in this area are intended as a means of understanding the appropriateness of the registrant's accounting for stock-based compensation and are not necessarily intended to result in additional disclosure in the registration statement. For example, the SEC staff may ask a registrant to explain the reasons for valuations that appear unusual such as steep increases in the fair value of the stock leading up to the IPO.

Previously, the SEC staff's expectations included detailed disclosures at each grant date for two to three years prior to the IPO date including specific assumptions used in the income approach, the comparable companies used in the market approach, the weighting of the different models used, and significant factors contributing to the change in fair value at each valuation date. We are not seeing this type of comments subsequent to the change in the SEC staff's guidance.

As a registrant completes its roadshow and commences discussion with its underwriters regarding the estimated offering price range, it is becoming more common for the registrant to self-initiate a communication to the SEC staff even before receiving a formal comment. Typically, the registrant sends a letter describing the valuation of its common stock leading up the IPO. The letter may include a quantitative and qualitative analysis explaining the difference between the estimated offering price and the fair value of each equity issuance for the preceding 12 months.

Because the aforementioned change in the FRM guidance occurred later in the period covered by this study, we did not yet see measurable impact on the overall volume of comments in this area. However, we expect to see a decline in the future.

1 When the estimated IPO price is known and included in your registration statement, please reconcile and explain the difference between the fair value of the underlying stock as of the most recent valuation date and the midpoint of your IPO offering range.

2 We note that the value of the common stock underlying the options issued in September 20X3 was $5. We also note that based upon a third-party valuation related to an acquisition completed as of September 3, 20X3, the fair value of common stock issued was $6. Please explain the difference in the fair value of the common stock used for the option grant compared to the common stock issued in September 20X3.

3 We note the significant increase in your fair value of common stock on the grant dates of January 24, 2014 and February 19, 2014 compared to your anticipated price range as noted in your February 25, 2014 letter. The factors provided in your letter for this increase would appear to have been known and accounted for at these grant dates in view of the close proximity to the February 24, 2014 underwriters price recommendations. Please expand your disclosures to identify and discuss the factors that occurred during this short time period that resulted in a significantly greater anticipated price range increase over the fair values used for the January and February grants.

Risk factors

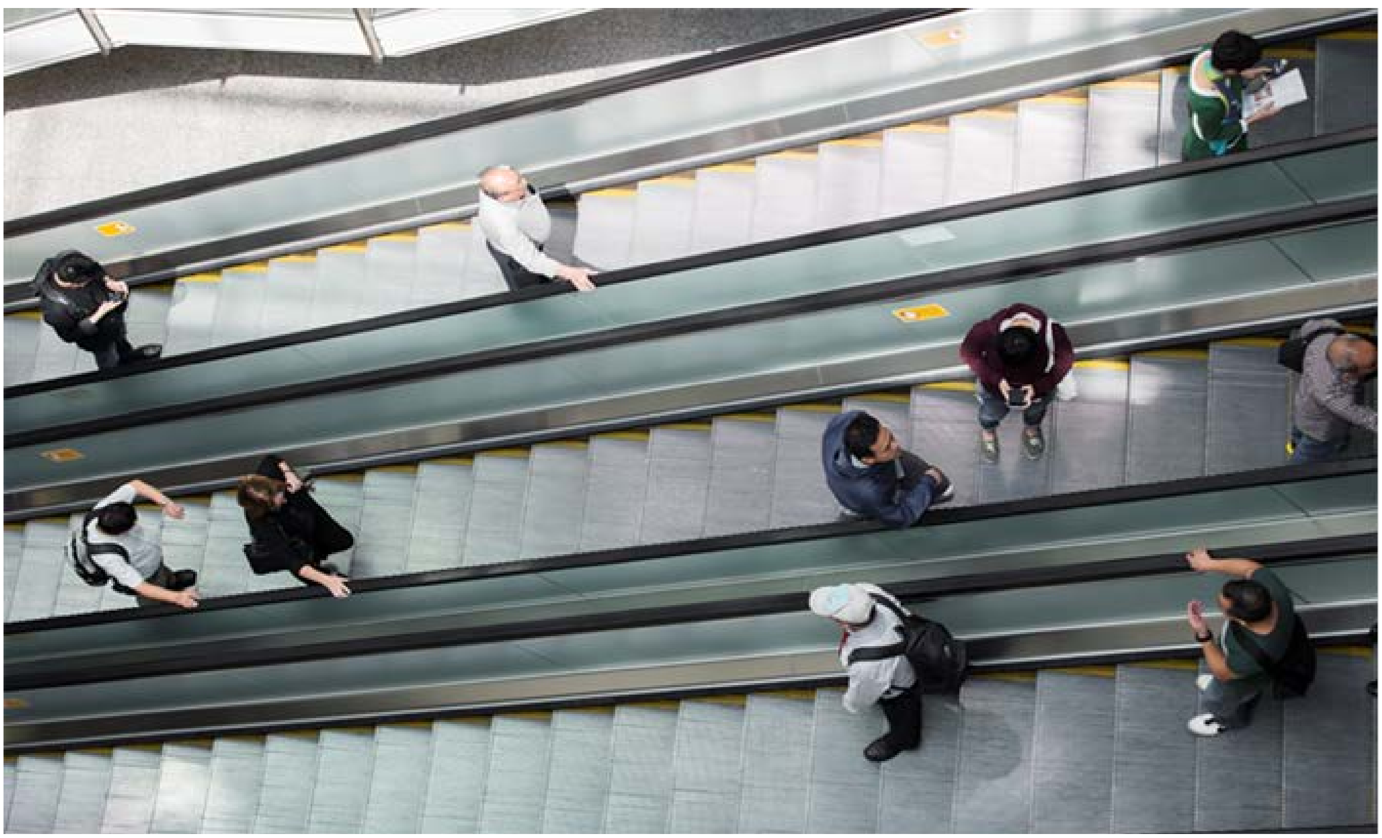
Regulation S-K requires companies to disclose all known significant factors that make an offering risky or speculative.

Risk factors are included in the non-financial part of a registration statement and may limit a company's liability to its shareholders if such risk of loss comes to pass. Common categories of risk factors include industry risks, company risks, and investment risks. Industry risks include, but are not limited to, those that relate to competition and government regulation. Company risks may include risks related to a company's financial performance, past or future acquisitions, international operations, liquidity, capital structure, and accounting, among others. Investment risks are associated with the specific security being offered—for example, common stock in an IPO.

Risk factors should be described using plain English, be clearly understandable, and be specific to the issuer. While the SEC staff's comments vary depending on the facts and circumstances, they commonly focus on such items as avoiding the presentation of risks that could apply to any issuer in the same industry and removing disclosure implying that there are other material risks that are not described in the filing.

1 This sub-caption appears to present a risk that could apply to any issuer or any offering. Please include a more tailored discussion of the specific risks to the company. See Item 503(c) of Regulation S-K.

2 We note your statements in the introductory paragraph that the risks described are not the only ones you face and that additional risks and uncertainties of which you are currently unaware or that you currently believe are not material may exist. Please clarify that the ensuing discussion covers all material risks or disclose all known material risks and remove language suggesting that there may be other significant risks.



Risk factors

3 Please delete the third sentence of the introductory paragraph of this section. All material risks should be described in your disclosure. If risks are not deemed material, you should not reference them.

The SEC staff may also request expanded disclosures from EGCs related to the risks of (a) the lack of comparability of an EGC's financial statements as a result of delayed adoption of new or revised accounting standards and (b) the reduced reporting requirements making the securities offered less attractive.

4 Since you appear to qualify as an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, please: State your election under Section 107(b) of the JOBS Act: o If you have elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b), include a statement that the election is irrevocable; or o If you have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1), provide a risk factor explaining that this election allows you to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. Please state in your risk factor that, as a result of this election, your financial statements may not be comparable to companies that comply with public company effective dates. We note that you have included a risk factor, stating that you "may elect to use the extended transition period for complying with new or revised accounting standards." However, you have not specified your election. Include a similar statement in your critical accounting policy disclosures.

5 Please revise this risk factor or provide a new risk factor that clarifies that as an emerging growth company, you are not required to provide your management's assessment of the effectiveness of your internal controls over financial reporting until your second annual report filed after the close of your IPO. Your discussion should discuss the risks to investors in light of your existing disclosure of your material weaknesses.

6 You indicate that you will be an emerging growth company for up to five years. Please indicate that you may lose your status as an emerging growth company at an earlier time and provide a cross-reference to an appropriate page of the prospectus where you provide a materially complete description of the circumstances in which emerging growth company status would end before the expiration of five years.

A significant number of domestic technology companies completing their equity IPOs during the period covered by our study reported a material weakness – nearly 40% compared to less than 5% in a recent benchmarking study of existing registrants in the technology sector. When registrants report a material weakness, they should include detailed disclosures of the nature of the control deficiency, management's remediation plans, timetable, and related costs. SEC staff comments often request additional information regarding the material weakness, the areas of financial reporting impacted, and the planned remediation.

7 Please expand this risk factor to describe the material weaknesses in your internal control in more detail. For example, please describe the processes or systems that were not implemented and what accounting policies or reconciliations lacked sufficient oversight, if any.

8 Please revise your risk factor to disclose what measures you are undertaking to address the material weakness, the timetable for remediation, and whether there are any associated material costs.

Executive compensation disclosures

Item 402 of Regulation S-K requires extensive disclosures on executive compensation for registration statements.

The objective of executive compensation disclosures is to provide investors and other users of financial statements with robust and transparent information about how and why a company arrives at specific executive compensation decisions and policies.

1 Please provide a narrative description explaining the reasons for the specific amounts of compensation awarded to your named executive officers. See Item 402(o) of Regulation S-K.

2 Please revise your disclosure to discuss the factors considered by your compensation committee in granting options to your executives. Also discuss any instances in which the grants varied from the recommendations it received from its compensation consultant, and explain the reasons for such deviations.

3 For each of your named executive officers please briefly explain why they received the option awards in the most recently completed year and disclose the manner that the basis on which the number of the underlying shares was computed.

EGCs may comply with the SEC's scaled executive compensation disclosure requirements for a smaller reporting company. For example, EGCs may disclose compensation only for the two most recent years, provide disclosure only for the CEO and the two other most highly compensated officers (as opposed to information for five named executive officers for non-EGCs), omit pension disclosures, and identify material items in all other compensation by narrative only.

4 We note that you have provided executive compensation disclosure for your current Chief Executive Officer, Executive Vice President of Operations and two former executive officers. Please be advised that item 402(m)(2) of Regulation S-K requires the disclosure of the company's two most highly compensated executive officers other than the principal executive officer serving at the end of the last completed year. Please advise why you have provided disclosure for only two current executive officers.

Comment letters issued by the SEC staff require registrants to disclose the specific performance targets and thresholds that executives have to achieve in order to earn their compensation awards. Many registrants have used the "competitive harm" argument; however, the SEC staff remains skeptical especially when such information is based on actual company results that are publicly disclosed after the fiscal year has ended.

5 Please disclose the revenue and Adjusted EBITDA targets utilized in 20X2, the actual revenue and Adjusted EBITDA achieved in 20X2, and the manner in which the payouts were made on the basis of the calculated matrix level of 200%. Please refer to Item 402(b) of Regulation S-K.

6 Please clarify that your board of directors exercised its discretion to approve an award payout of 100%, even though it appears that you did not achieve certain performance objectives, such as EBITDA. In addition, please tell us how you considered disclosing your 20X1 performance against each performance objective.

Executive compensation disclosures

7 GAAP revenue and Adjusted EBITDA targets are material to your compensation policies and decisions and play an important role in the way you incentivize management. Both are extremely broad company-wide corporate metrics that are publicly reported. It is still unclear how competitors could pull together specific information about your future operations and strategy from disclosure of your GAAP revenue and Adjusted EBITDA targets and the weight attributed to them. Targets based on these metrics do not appear to constitute confidential commercial or financial information, the disclosure of which would result in substantial competitive harm. Please advise.

8 It appears that you have not disclosed your corporate targets in reliance on Instruction 4 to Item 402(b) of Regulation S-K. These targets are based on GAAP revenue and Adjusted EBITDA, company-wide financial results publicly disclosed. It is unclear how disclosure of these targets, after you have already disclosed GAAP revenue and Adjusted EBITDA for fiscal 20X2, will result in competitive harm. Please advise.

When registrants benchmark their executive compensation against other companies, the SEC staff regularly asks them to disclose the specific peer companies used for benchmarking purposes and specify how the peer group was established, describe how the pay for named executive officers compared with the established benchmarks and provide an explanation if actual compensation differs from the targeted percentiles.

9 In the last sentence of the second paragraph, you state that you used survey data "on a limited basis" to determine the size of equity award grants. Please clarify how you use the survey data. To the extent that it is used as a benchmark similar to its use in setting total cash compensation, you should consider providing equivalent disclosure.

Pro forma financial information

The objective of pro forma financial information is to provide investors with an indication about the continuing impact of particular transactions by indicating how they might have affected the historical balance sheet and income statement had they occurred at an earlier date.

In reviewing pro forma information, the SEC staff's focus is on the appropriateness of the pro forma adjustments made, specifically whether they are (a) directly attributable to the transaction, (b) factually supportable, and (c) expected to have a continuing impact (for income statement adjustments only). In addition, they will frequently request more details on the calculation of pro forma adjustments and that individual adjustments be separated instead of combining multiple items in a single adjustment.

1 We note that the pro forma financial statements show the effects of multiple transactions, including the contribution of capital stock, borrowings under a new senior secured term loan, a new revolving credit facility and repayment of certain existing third party indebtedness. Please revise the introductory paragraph to provide a more detailed description of the various transactions reflected in the pro forma presentation. Refer to Rule 11-02(b)(2) of Regulation S-X.

2 In order to provide investors with greater insight into the effects of the various transactions for which you are reflecting pro forma information, revise the presentation to separately present each of the significant transactions, including at a minimum, separate columns reflecting each of (1) the spinoff of the semiconductor materials business and (2) the financing transactions.

3 Revise to present each adjustment on a gross basis so that it may be identified in the corresponding explanatory note.

Directly attributable

A pro forma presentation should not include adjustments, assumptions, and hypothetical scenarios. Adjustments such as expected cost savings (e.g., due to economies of scale) should be excluded from pro forma financial statements. In other words, the term "directly attributable" referred to in Article 11 of Regulation S-X is viewed by the SEC staff as a concept that excludes transactions and adjustments, which, by their nature, present alternative courses of action, or extensions of directly attributable transactions to other possibilities (e.g., decisions that are discretionary). Judgmental estimates of how historical management practices and operating decisions may or may not have changed as a result of the transaction should be excluded from the pro forma financial information.

4 Adjustments 2(f), 2(h) and 2(i) appear to be more akin to anticipated events and an extension of the notion of directly attributable. Please revise your presentation to remove these adjustments. Refer to Rule 11-02(b)(6) of Regulation S-X.

5 We note that pro forma adjustments (d) and (h) reflect adjustments for freight and other logistics services that you will perform in the future. Please tell us how these adjustments are directly attributable to the transactions for which pro forma financial statements have been presented. Refer to Rule 11-02(b)(6) of Regulation S-X.

The SEC staff has indicated that it views information about the possible or expected impact of current actions taken by management in response to the transaction for which the pro forma information is being presented, as if such actions were carried out in previous reporting periods, to be a projection and outside the scope of Article 11 of Regulation S-X. Presentation of forward-looking projected information should be confined to MD&A. Supplemental information should be separately identified as such.

Factually supportable

The term "factually supportable" has been interpreted by the SEC staff to mean that there is reliable, documented evidence in support of the adjustment, such as executed contracts and consummated transactions.

6 We note from your disclosures that the redeemable common stock issued in connection with the acquisition is contingently redeemable at the option of the holder depending on whether or not you complete an IPO. Please explain to us how the pro forma adjustment for

their redemption met the factually supportable criterion of Rule 11-02(b)(6) of Regulation S-X for each redemption feature. In this regard, tell us if you received written confirmation of unitholder's intentions to redeem their common stock upon completion of your IPO for the unitholder with this right. For the remaining unitholders, it appears the redemption right only exists when an IPO is not completed by certain dates. Since those dates have not passed yet, then please explain why you have assumed the redemption of the remaining redeemable common stock.

Expected to have a continuing impact (income statement only)

Only items with an ongoing impact should be pro forma adjustments to the historical income statement. Previously, this was interpreted to include only items that will continue to affect the income statement for 12 months or longer after the transaction. More recently, the SEC staff has indicated that items expected to have a continuing impact include anything that is not a "one-time" impact. For example, the amortization expense related to a short-term intangible asset with an estimated useful life of six months would be an acceptable pro forma adjustment. In such cases, it is best practice to include clear disclosure of the basis for the adjustment.

7

Please advise if the termination of the management agreement will be reflected in the pro forma statements of income. Also, it appears that the onetime fee to be paid to terminate the agreement should be prominently disclosed as a material nonrecurring item that is reflected in the pro forma balance sheet but excluded from the pro forma statements of income.

Dividends

When the dividends declared in the latest year exceed earnings for the previous twelve months, the SEC staff presumes they will be funded with proceeds from the IPO and, therefore, registrants are required to present pro forma earnings per share on the face of the income statement (SAB Topic 1.B.3).

8

In light of the special dividend paid in the quarter ended September 30, 20X3, please tell us your consideration of adjusting pro forma per share data to give effect to the increase in the number of shares which, when multiplied by the offering price, would be sufficient to replace the capital in excess of earnings being withdrawn. Refer to SAB Topic 1B.3.

This requirement applies not only to dividends already paid in a period included in the registration statement but also to dividends declared after the latest balance sheet included in the registration statement and those dividends that are planned but not yet declared. In connection with an IPO, a registrant may use the proceeds to pay a dividend to its promoters/owners or parent company. When dividends are to be paid from the proceeds of the offering, the SEC staff believes it is appropriate to include unaudited pro forma per share data (for the latest year and interim period only) giving effect to the number of shares whose proceeds would be necessary to pay the portion of the dividend that exceeds the current year's earnings.

9

In addition to the pro forma information noted in the comment above, pro forma earnings per share for the latest year and interim period should be presented in the statements of operations giving effect to the conversion of the preferred stock to common stock. Also, if the preferred stock dividend is to be paid out of proceeds of the offering rather than from the current year's earnings, pro forma per share data should be presented (for the latest year and interim period) giving effect to the number of shares whose proceeds would be necessary to pay the dividend (but only the amount that exceeds current year's earnings) in addition to historical earnings per share. Similar pro forma information should also be provided throughout the filing where appropriate.

Debt and equity instruments

Companies in the technology sector frequently issue debt or equity securities with various terms and features, and the related accounting is highly technical.

Complexity arises from financial instruments with the characteristics of both debt and equity. The SEC staff often focuses on the classification, measurement, conversion features and presentation of redeemable equity securities, such as redeemable preferred stock, common stock, and warrants to acquire stock, as well as comprehensive disclosures of those instruments' terms. There is a significant difference between conventional equity capital and a security with mandatory redemption requirements. ASC 480 includes guidance for such securities, which, in SEC filings, should be classified in the temporary equity or "mezzanine" section of the balance sheet and measured at, or accreted to, their redemption values. This guidance is required for companies that are filing financial statements with the SEC and optional for private companies.

1 You disclose your account for freestanding warrants to purchase shares of convertible preferred stock as liabilities in the consolidated balance sheets at their estimated fair value. Please tell us how you made such determination, the related terms in the agreements giving rise to such treatment and the related accounting guidance you relied on. Also, expand your disclosures to incorporate this information as well as the noting the amount of gain or loss recorded in other income (expense) as a result of the changes in the estimated fair value for each period presented.

2 It appears that the automatic conversion of your redeemable convertible preferred stock is conditioned upon both a minimum price per share of $5.01 and gross proceeds of at least $20 million or the election of a majority of the holders of these shares. As necessary, revise you disclosures throughout your filing to provide a complete description of the contingent conversion conditions.

3 Your disclosure indicates that the preferred stock is eligible for redemption at the option of the holder in October 20X4. However, we note your disclosure indicates that you received notice waiving the stockholder's right to require the Company to redeem the stock until October 20X4. It is unclear to us based on your current disclosure whether the preferred stock is redeemable at some future time or whether all redemption rights have been waived. Please clarify whether the preferred stock is redeemable and if so when the holder may redeem.

4 We note from your disclosure that when determining the fair value of your common stock, you consider sales of redeemable convertible preferred stock. Please clarify whether your convertible preferred stock contains redemption provisions and if so, please revise disclosures to describe the redemption provisions and tell us how you considered the redemption provisions in accounting for the preferred stock and classifying the preferred stock within stockholder's equity. Alternatively, if the preferred stock does not contain redemption provisions, please revise your disclosure accordingly.

Income taxes

As technology companies have become increasingly global, questions about foreign income tax have increased as well.

The accounting for income taxes, including related disclosure requirements, is often complex and involves significant judgment. SEC staff comments have focused on disaggregation in the income tax provision disclosures and the sufficiency and consistency of indefinite reinvestment disclosures.

Comments frequently ask registrants to enhance their disclosure of how the results of operations are impacted by having proportionally higher or lower earnings in jurisdictions with different tax rates and the extent to which foreign effective tax rates differ from the domestic rate. In addition, the SEC staff's comments remind registrants that they should disclose the breakdown of pre-tax income or loss between domestic and foreign.

The SEC staff also issued comments when it was unclear whether the registrant's effective tax rate reconciliation included each item that exceeded five percent of income tax expense calculated using the applicable statutory tax rate (as required by ASC 740-10-50-12 and Rule 4-08(h)(2) of Regulation S-X).

1 Please tell us what consideration you gave to Rule 4-08(h)(1) of Regulation S-X which requires you to disclose the components of income (loss) before income tax expense (benefit) as either domestic or foreign.

2 Please separately present any material components included in the line item "effect of foreign operations (including valuation allowance)." Refer to Rule 4-08(h)(2) of Regulation S-X.

3 Please quantify the significant reconciling items that are included in your discussion. We also note your response to the "Other" line item. In consideration that this "Other" line item is your largest reconciling item; please include this in your discussion of income tax expense (benefit). Also, consider revising the line item in your table to more clearly identify the nature of this amount.

If a registrant determines that its foreign earnings will be indefinitely reinvested outside of the U.S., it does not have to record a deferred income tax liability related to repatriating these earnings. The SEC staff has frequently asked registrants to explain the factors supporting their indefinite reinvestment assertion, including a description of their plans in each foreign jurisdiction and consideration of significant upcoming domestic liquidity needs. In addition, the SEC staff reminded registrants that when an indefinite reinvestment assertion is made, ASC 740-30-50 requires disclosure of the amount of the unrecognized deferred tax liability on undistributed earnings of foreign subsidiaries or a statement that such determination is not practicable.

The interplay between a registrant's indefinite reinvestment assertion and liquidity has continued to be an area of SEC staff comment. Registrants have been asked to disclose the amount of cash and cash equivalents in foreign jurisdictions, the estimated tax consequence of potential repatriation, and a description of events that may cause such foreign earnings to become taxable. The SEC staff has indicated that highlighting the amount of cash that may not be available to fund domestic operations or obligations without paying a significant amount of taxes upon repatriation is an important element of transparent liquidity disclosures.

4 We note your disclosure that you have not provided deferred taxes on undistributed earnings of foreign subsidiaries. Please tell us and disclose the amount of the undistributed earnings of foreign subsidiaries that are considered to be "reinvested" as of December 31, 20X2. Also disclose the related amount of unrecognized deferred tax liability or include a statement that such determination is not practicable. We refer you to ASC 740-30-50-2.

5 We note that you intend to permanently reinvest undistributed earnings of your foreign operation and the calculation of deferred tax liability for these undistributed earnings is impracticable. Revise to disclose the amount of undistributed earnings of your foreign subsidiaries. Refer to ASC 740-30-50-2. In addition, tell us whether some of your cash and cash equivalents are held by these foreign subsidiaries. If so, revise you liquidity disclosure within your MD&A to disclose the amount of such cash and cash equivalents and indicate that these amounts would be subject to income tax if repatriated to the United States.

Segments

GAAP requires public companies to disclose disaggregated financial information about their significant business units, referred to as reportable segments, as well as certain enterprise-wide information.

Private companies are not required to report financial information about their segments, so presenting segments is usually a significant change for companies undertaking an initial public offering. Segment reporting has been an area of recurrent comments from the SEC staff, who frequently challenge the identification and aggregation of operating segments. It is not unusual for the SEC staff to request documentation supporting the registrant's identification of operating segments. The SEC staff has often asked issuers to submit the information given to the CODM to allow the SEC staff to consider whether the information is consistent with the registrant's identification of its segments (particularly when a company discloses only one reportable segment). Segment reporting is based on the information included in the internal reporting package, and it is presumed that all information made available to the CODM is used to assess the performance of the business and make decisions about the allocation of resources. The objective of these disclosures is for investors to have the benefit of seeing the business in the same level of detail as management.

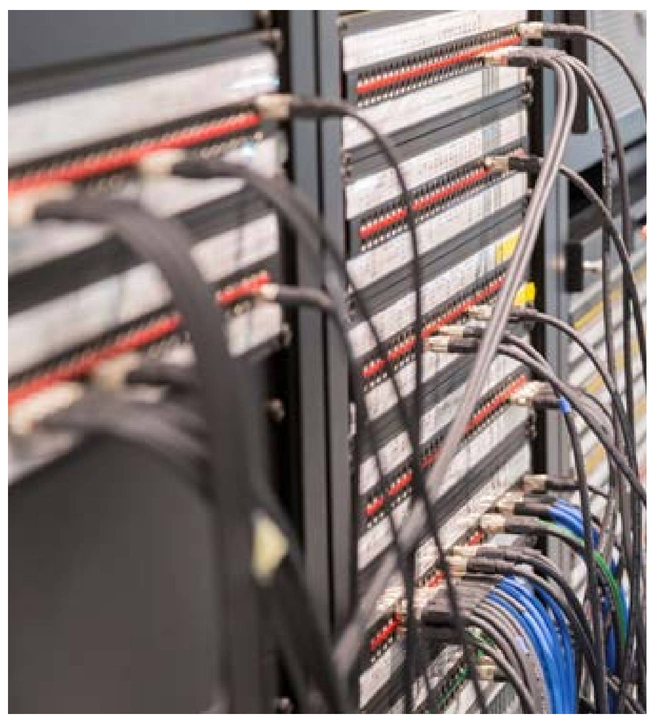
1 We note that you manage your business as one operating segment--healthcare information technology solutions. We note you have licensed users in non-healthcare organizations. In this regard, tell us why the non-healthcare organizations do not represent a reportable operating segment. We refer you to ASC 280-10-50.

GAAP also requires disclosure of certain enterprise-wide information, irrespective of whether a company has one or more reportable segments. This information includes revenue disaggregated by products or services and geographical disclosures (revenues and assets) by country, if amounts are greater than 10% of the consolidated totals. If certain disclosures are impracticable to provide, a registrant should disclose that fact in their filing.

2 Please tell us whether revenues attributable to any individual foreign country are material. In this regard, tell us what consideration you gave to disclosing the amount of revenue attributable to your country of domicile. We refer you to ASC 280-10-50-41.

3 We note that your revenue recognition policy reflects accounting for software products separately from tangible products containing essential software. Please tell us your consideration for disclosing revenue from each of your products separately. Refer to ASC 280-10-50-40.

4 Please tell us your consideration of breaking out your long-lived assets located in your country of domicile and located in all foreign countries. Refer to FASB ASC 280-10-50- 41b.



Goodwill and intangibles

Goodwill impairment assessments and related disclosures have continued to be a focus of SEC staff comments.

Companies are required to assess goodwill and indefinite-lived intangible assets for impairment at least annually. Assessment is required sooner if there are any triggering events that may be indicative of an impairment. The basis for performing the 2-step goodwill impairment test is the reporting unit. The SEC staff has often challenged registrants' determination of reporting units, since setting them at too high of a level may result in avoiding an impairment charge.

1 We note your discussion that non-core revenue represents revenue from two legacy acquisitions. As you appear to differentiate and analyze revenue between core and non-core please tell us whether you consider these to be components or operating segments. If so, please tell us how you concluded that they could be aggregated and deemed a single reporting unit. Please refer to ASC 350-20-35-33 through 35-46.

In performing the impairment test, if a qualitative assessment was prepared (often referred to as a Step 0 analysis), the SEC staff may ask when the last quantitative test was performed and whether the fair value of the reporting units substantially exceeded the corresponding book values at that time. They may also request detailed disclosure of which reporting units are being assessed under the qualitative assessment, and the specific factors considered.

2 Please tell us more about the qualitative analysis performed as of October 31, 20X2, including the specific qualitative factors considered. Tell us whether you performed a step one analysis subsequent to your qualitative assessment and if so, describe the results. Additionally, tell us what consideration was given to more clearly disclosing the steps and analyses actually performed as of the most recent assessment. Please refer Section V of SEC Interpretive Release No. 33-8350.

SEC staff comment letters have also continued to request companies to expand their disclosures in the critical accounting estimates section of SEC filings for any reporting units with material goodwill balances that are "at risk" of failing step one of the goodwill impairment test, including the percentage by which the fair value of the reporting unit exceeded its carrying value as of the date of the most recent step one analysis, the amount of goodwill assigned to the reporting unit, and a qualitative discussion of assumptions used to determine fair value, including the inherent uncertainties and potential events and circumstances that could have a negative effect on the reporting unit's fair value. The conclusion about whether a reporting unit is "at risk" of failing step one of the goodwill impairment test is a matter of professional judgment, with no bright lines as to when a reporting unit's fair value is "substantially in excess of its carrying value." If a company believes that the expanded disclosures are not applicable, the SEC staff has requested disclosures to that effect.

3 Please tell us why you do not consider the Company's accounting for the evaluation and impairment of goodwill to be a critical accounting policy. See Section V of SEC Release 33-8350.

4 Revise to disclose whether you have determined that the estimated fair value of your reporting unit substantially exceeds its carrying value and if so please revise to disclose this determination. To the extent that your reporting unit has an estimated fair value that is not substantially in excess of the carrying value and is at potential risk of failing step one of your goodwill impairment analysis, please tell and disclose the following: the percentage by which the fair value of the reporting unit exceeded the carrying value as of the date of most recent test; discuss the degree of uncertainty associated with the key assumptions used in determining the fair value of your reporting unit; and describe the potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions used in determining fair value Please refer to Item 303(a)(3)(ii) of Regulation S-K and Section V of SEC Release No. 33-8350.

Business combinations

Companies in the technology sector that have been acquisitive leading up to an IPO must comply with the extensive disclosure and financial statement requirements related to acquisitions.

Merger and acquisition activity in the technology industry has been on the upswing over the past couple of years, driven by new highs in the U.S. equity markets, increased venture capital investments, positive interest rate environment, and modest optimism about the U.S. economy. Acquisition-related accounting and disclosure requirements can be complex and vary based on the deal terms and the nature of the assets acquired and liabilities assumed. ASC 805, Business Combinations, requires extensive disclosures to enable users to evaluate the nature and financial effects of a business combination. Companies should carefully consider all of the disclosure guidance in preparing financial statements, both in the period of the acquisition and in subsequent periods.

For companies in the technology industry, the SEC staff comments have focused on both the accounting and the disclosure requirements including:

- How fair value was determined and the key assumptions used,
- How goodwill was allocated to reporting units and the interplay with the company's reportable segment disclosures,
- Pro forma and actual revenue and earnings information for acquisitions that were material individually or in the aggregate.

1 Please expand your disclosure to include a description of the methodology used to allocate purchase price to identifiable intangible assets, including developed technology.

2 Tell us how you considered the disclosure requirements of ASC 805-10-50-2(h)(1) to disclose the amounts of revenue and earnings of the acquire since the acquisition for each of the periods presented.

3 You state that your acquisitions have been fully integrated into your financial reporting systems and the earnings resulting from the acquisitions since their respective acquisition dates cannot be calculated without unreasonable effort. Please revise to disclose this information. In this regard we note that ASC 805-10-50-2(h) indicates that if disclosure of any of the information required by (h) is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable.

In addition to providing the acquisition disclosures required under ASC 805, registrants need to evaluate the significance in accordance with Rule 3-05 of Regulation S-X of any acquisitions completed up to three fiscal years prior to the filing of their Form S-1. Depending on the timing and significance of an individual acquisition or the aggregate of several acquisitions completed within the same year, a registrant may be required to provide audited historical financial statements of the acquiree(s) and pro forma financial information under Article 11 of Regulation S-X. Because of some complexities and nuances of the significance calculations, the SEC staff may request companies to provide the details of the significance tests performed under Rule 3-05.

4 Please tell us how you concluded the historical results of the acquiree were not material to your financial statements for purposes of presenting pro forma revenue and results of operations per ASC 805-10-50-2(h). Tell us the amount of revenue and earnings in the current and prior annual periods. Also, please provide us with your significance tests under Rule 3-05(b)(2) of Regulation S-X.

Other notable trends

Loss Contingencies: ASC 450 requires companies to record an accrual for a loss contingency when a loss is probable and the amount of the loss can be reasonably estimated. The SEC staff's questions generally address compliance with the existing disclosure requirements; even if the criteria for accrual have not been met, disclosure may still be required if the loss is reasonably possible. For loss contingencies that meet the criteria for disclosure, registrants should disclose the nature of the contingency and an estimate of the possible loss or range of loss (or a statement that such estimate cannot be made).

1 ASC 450 requires companies to record an accrual for a loss contingency when a loss is probable and the amount of the loss can be reasonably estimated. The SEC staff's questions generally address compliance with the existing disclosure requirements; even if the criteria for accrual have not been met, disclosure may still be required if the loss is reasonably possible. For loss contingencies that meet the criteria for disclosure, registrants should disclose the nature of the contingency and an estimate of the possible loss or range of loss (or a statement that such estimate cannot be made).

2 Your disclosure indicates that the company believes that the ultimate disposition of pending proceedings will not have a material adverse effect on the company's financial position, results of operations or cash flows. In light of your prior response that it is too preliminary to make an estimate of the potential amount of contingency related to the July 20X3 infringement complaint, please describe your basis for concluding that the ultimate disposition of pending legal proceedings will not be material.

Materiality: SAB Topics 1.M and 1.N contain the SEC's guidance on materiality. Materiality must be evaluated considering both quantitative and qualitative factors; it should not be assumed that an error is immaterial simply because it falls below a certain dollar level. Companies should be prepared to provide the SEC staff with their detailed contemporaneous analysis, which should include a comprehensive discussion of the factors included in the guidance and reflect the agreement of the audit committee and external counsel with company conclusions.

These evaluations involve a significant amount of judgment and may be difficult to conclude that a quantitatively large error is not material on the basis of favorable qualitative considerations or, conversely, that a quantitatively small error is not material when there are significant negative qualitative factors.

3 You indicate that you made certain reclassifications to the prior years' consolidated financial statements to conform to the 20X3 presentation. Provide us with the basis for your conclusion that these reclassifications are not material, either individually or in the aggregate, to your consolidated financial statements. Explain what consideration was given to the disclosure requirements of ASC 250-10-50-7 to 50-9.

4 You indicate that the provision to return difference was attributed to the change in estimated tax expense for 2010 recorded in 2011 and an error occurring in 2011 uncovered before the completion of the 2011 audit. You also state that the adjustments for non-deductible expenses related to certain tax attributes for a foreign subsidiary the company was not entitled to. Please provide your analysis of why these errors are immaterial. Your analysis should consider the materiality of the errors as compared to your net income.

Capitalization table: IPO registration statements include a presentation of a company's capitalization on (a) a historical and (b) a pro forma basis giving effect to the IPO. The capitalization table presents the pro forma impact of events which will occur as a result of an offering such as the automatic conversion of preferred stock upon the completion of the IPO, the issuance of common stock in the IPO, or the use of the offering proceeds for the repayment of debt or other purposes. A company's capitalization is the total of its debt and equity. In addition, issuers frequently present cash and cash equivalents within the capitalization table. Even when cash and cash equivalents are clearly excluded from the amount of total capitalization, we have seen the SEC staff request that registrants remove the line item from the capitalization table altogether.

5 Please remove cash and cash equivalents from your capitalization table, as cash and cash equivalents are not a component of capitalization.

SEC comment letter process

The SEC's Division of Corporate Finance (CorpFin) has a long history of reviewing filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934. The intent of the review is to monitor and enhance compliance with applicable disclosure and accounting requirements. They will also provide interpretative advice, no-action letters, or exemption/waiver letters to companies based on specific facts and circumstances.

CorpFin performs its reviews through 12 Assistant Director (AD) offices organized based on specialized industry, accounting, and disclosure expertise. Technology company filings are typically reviewed by AD offices No. 3 (Information Technologies and Services) and No. 10 (Electronics and Machinery). An issuer's AD assignment is shown in EDGAR following the basic company information. This organizational structure can sometimes explain why multiple companies in the same industry receive very similar comments.

Responding to SEC Comment Letters

The SEC staff's comments are based primarily on a company's disclosure and other public information, such as information on the company's website, in press releases, discussed on conference calls, etc. (nonpublic information, such as whistleblower tips and PCAOB inspection reports, can also be a source of comments). SEC staff comments reflect their understanding of the applicable facts and circumstances. In comments, the SEC staff may request that a company provide supplemental information so the SEC staff can better understand the company's disclosure, or may ask that the company provide additional or different disclosure in a future filing or change the accounting and the disclosure by filing an amendment.

When responding to the SEC staff, keep these best practices in mind:

- *Own the process*—Companies should leverage the knowledge and experience of their independent auditors and SEC counsel, but it's important to maintain ownership. As with any project, there should be a clear owner and project manager coordinating the input from various sources and developing a response.

- *Don't rush*—There is no specific time limit for responding to the SEC staff's comments related to an IPO registration statement. A thoughtful and complete response is better than a quick reply.

- *Expect a detailed review* —As it enters the market for the first time, a company going through an IPO can expect a full review of its registration statement, financial statements, and all exhibits. After becoming a public company, an issuer can expect its filings to be reviewed at least once every three years. This can be a full cover-to-cover review, a financial statement review, or a limited review focused on a specific targeted matter.

- *Ask the SEC staff*—Companies can call the SEC staff if they do not understand the comment. The objective should not be for the company to explain their position, but to gain clarification when a comment or aspects of the comment is unclear.

- *Remember that comments become public*—Comments become part of the public domain once submitted and resolved. Comments and the related responses are posted to the SEC's website no earlier than 20 days after the review is completed or the registration statement is declared effective. Even those comment letters related to Emerging Growth Companies that have submitted confidentially are eventually made public. CorpFin will redact any information subject to a Rule 83 confidential treatment request without evaluating the substance of that request.

- *Don't rely solely on precedent*—Previous comments and responses of other companies may provide useful information but should not be the primary basis of the response. Each comment is based on specific facts and circumstances and may involve different levels of materiality. Accordingly, the reason the SEC staff accepted a response for one company may not be applicable in another situation. Make sure the response is appropriate based on the company's specific facts and applicable accounting literature.

- *Address the intent of the question*—Consider, if possible, the objective of the SEC staff comment. Sometimes providing a complete answer that addresses the intent of the question can stave off future comments.

- *Provide planned disclosures*—Many comments will request additional disclosure in future filings. To ensure there is a meeting of the minds, provide the SEC staff with a draft of the applicable disclosure, even if the data used is from a prior period. This will allow the SEC staff to assess whether the narrative sufficiently addresses their comment and may prevent future comments on the same disclosure.

The company or its representatives should feel free to involve the SEC's Office of the Chief Accountant (OCA) (distinct from CorpFin's Office of Chief Accountant) at any stage in this process. Generally, OCA addresses questions concerning the application of GAAP while CorpFin resolves matters concerning the age, form, and content of financial statements required to be included in a filing.

Closing a Filing Review

When a company has resolved all SEC staff comments on a Securities Act registration statement, CorpFin provides the company with a letter to confirm that its review of the filing is complete.

When a company has resolved all SEC staff comments on a Securities Act registration statement, the company may request that the SEC declare the registration statement effective so that it can proceed with the transaction.

A more detailed discussion of the filing review process used by the Division of Corporate Finance can be found on the SEC's website at:

http://www.sec.gov/divisions/corpfin/cffilingreview.htm

About PwC's Technology Institute

The Technology Institute is PwC's global research network that studies the business of technology and the technology of business with the purpose of creating thought leadership that offers both fact-based analysis and experience-based perspectives. Technology Institute insights and viewpoints originate from active collaboration between our professionals across the globe and their first-hand experiences working in and with the technology industry. For more information please contact Tom Archer, U.S. Technology Industry Leader.

Let's talk

Please reach out to any of our technology leaders to discuss this or other challenges. We're here to help.

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