Demand Media

2012 ANNUAL REPORT

CONTENT FOR REAL LIFE

More than 100 million people come to Demand Media every month to discover content and communities that are relevant to them. We connect brands with people and people with brands.

Dear Fellow Shareholders,

I am extremely proud of Demand Media's accomplishments in 2012. We delivered record financial results, enhanced our content creation and distribution platform, and positioned our registrar and registry platform to become a leading provider of end-to-end domain services.

Our unique media platform – a scalable way to discover, create and distribute content – provides a solid foundation for future growth as we diversify into new distribution channels, new geographies, and new paid content models.

Our leading registrar platform and our new registry technologies position us for leadership in the domain registration services market, particularly as ICANN's new generic Top Level Domain ("gTLD") initiative reshapes the way consumers and businesses think about personalizing their online destinations.

We are proud to be at the forefront of innovation for both of these exciting growth opportunities, and look forward to expanding our service offerings and platforms this year.

2012 Accomplishments

Content & Media
During 2012, we strengthened Demand Media's long-term competitive position and set the stage for future growth by significantly enhancing our content creation and distribution platform. We focused on higher quality and more engaging content, emphasizing expert talent, and we expanded the variety of content we produce, such as slide shows, videos, feature articles and mobile-friendly formats.

Further, we expanded the distribution of our content to a broader range of partners and geographies. We distributed the majority of new content published in 2012 on our rapidly growing network of content partners and our emerging international sites. This drove year-over-year page view growth on content channels by nearly six-fold and more than tripled our international site page views.

Our content is also well suited for mobile, which enabled us to significantly improve mobile monetization, growing revenue per thousand impressions (RPMs) by over 75% throughout the year. We also grew our mobile audience substantially, with mobile driving 26% of visits to our core owned & operated sites by the end of 2012.

These achievements, combined with continued growth of our content library, drove record traffic to our sites. According to comScore, in March 2013, our websites reached a global audience of over 126 million unique monthly visitors, ranking as the 29th largest property in the world.

Our content & media business touches 1 in every 3 consumers online in the U.S. every month, providing instruction, advice, and insight on just about everything they encounter throughout their day. Our goal is simple: serve as a key touch point in people's lives by connecting them to content that is personally relevant. We are proud of the progress we have made and even more excited about the opportunities ahead.

Registrar

In 2012, we positioned our registrar business as a leading player in the upcoming new gTLD market – we expanded our domains under management and our reseller footprint, added retail registrar capabilities, and applied to become a registry for new gTLDs.

Over the last three years, we grew domains under management by 66% to approximately 15 million names. We currently service nearly 8,800 resellers, reaching millions of businesses and consumers. At the end of the year, we acquired Name.com to add a direct retail presence to our service platform. In 2012, we invested substantial time and resources towards our new gTLD growth initiatives. We filed 26 stand-alone gTLD applications, and share equal rights to an additional 107 gTLDs with a strategic partner. We are also leveraging our technical know-how to establish ourselves as a leading registry service provider, providing back-end services to other registries.

We expect to begin to transform our registrar services business into a leading end-to-end domain services provider when the new gTLDs start launching later this year.

2013 Goals and Objectives

Content & Media
We plan to leverage the power of our expert-driven content creation studio as we seek to more than double our investment in content in 2013 compared with 2012. We plan to build on our initial success with content channel partners and our emerging international

sites by adding a majority of the new content we publish in 2013 to these distribution points. In addition, we plan to use the extensive data on how consumers are accessing our content via mobile devices to develop new mobile-centric content.

We will also leverage our audience, data, and content creation platform to expand beyond advertising-driven content with new paid content opportunities such as e-learning, experts-on-demand and subscription services. We accelerated our paid content strategy with the recent acquisition of Creativebug, a leading online destination for art and craft instruction. In addition, we plan to launch a new LIVE**STRONG**.com subscription-based 30 minute daily workout program and meal plan that is integrated with our calorie tracker. We are also testing an expert-on-demand service, powered by our studio of experts, which engages users in real-time with a deeper level of advice and interaction.

We expect our increased investment in new content and expansion into paid content offerings to drive future growth as well as diversify and strengthen our content & media platform.

Registrar

Our registrar business is preparing for the launch of more than 1,000 new gTLDs, which we believe represents a historic event for the internet that will unlock more consumer choice and generate new growth opportunities. New gTLDs offer consumers and businesses additional opportunities to brand themselves online with unique web addresses that are typically unavailable with a .com and .net extension.

We also view the upcoming launch of gTLDs as a transformative event for our registrar services business as we transition from a high volume, wholesale distribution model to an end-to-end domain services business featuring registry and other value added services. Through our platform, we will register unique domain names for consumers and businesses, and provide value added solutions to build out these new web addresses.

Creation of Two Independent Publicly Traded Companies

Our two strong businesses are addressing increasingly distinct growth opportunities and markets. In February 2013, our Board authorized management to explore the separation of Demand Media into two independent, publicly traded companies:

- A leading online media company delivering quality content to over 100 million monthly consumers, and
- A leading end-to-end domain services company supporting millions of businesses and consumers.

We believe that a separation will better position each of our companies to pursue its unique strategic priorities and opportunities.

Once the spin-off is completed, Demand Media will become a pure-play media company with a powerful outsourced content creation platform, leading web properties that reach over 100 million monthly unique visitors, and a unique monetization platform that incorporates branded, network and mobile optimizations.

Our new domain services company will be one of the only end-to-end domain services providers, with a large registry that includes numerous gTLDs, expansive wholesale and retail distribution, and, through a joint venture, a dominant aftermarket platform to buy, sell and monetize domain names.

In short, in 2012, we significantly enhanced our content creation process and expanded our distribution, leading to record traffic growth and financial results. We also set the stage for future growth with our investments in mobile, international, content channels and gTLDs.

In 2013, we are excited to further diversify and strengthen both our content & media and domain services businesses, and position each as a leader in its respective market. We believe the separation of Demand Media into two distinct publicly traded companies will better enable each business to capitalize on its respective growth opportunities.

I'd like to thank all of our employees for their outstanding efforts over the past year. I'd also like to thank you, our shareholders, for your continuing support as we embark on these exciting growth initiatives.

Thank you,

Richard Rosenblatt
Chairman and CEO

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from to

Commission file number 001-35048

DEMAND MEDIA, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-4731239** (I.R.S. Employer Identification Number)
1299 Ocean Avenue, Suite 500 **Santa Monica, CA** (Address of principal executive offices)	**90401** (Zip Code)

(310) 394-6400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
Common Stock, $0.0001 par value	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

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

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

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

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

As of June 30, 2012, the aggregate market value of the registrant's common stock, $0.0001 par value, held by non-affiliates of the registrant was approximately $413 million (based upon the closing sale price of the common stock on that date on the New York Stock Exchange).

As of February 27, 2013, there were 86,764,090 shares of the common stock, $0.0001 par value, outstanding.

Documents Incorporated by Reference

Part III of this Annual Report on Form 10-K incorporates by reference portions of the registrant's Proxy Statement for its 2013 Annual Meeting of Stockholders to be held on June 11, 2013.

DEMAND MEDIA, INC.

INDEX TO FORM 10-K

PART I

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our estimates of our financial results and our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Item 1A. under the heading entitled "Risk Factors." Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report on Form 10-K to conform these statements to actual results or to changes in our expectations.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed with the Securities and Exchange Commission (the "SEC") with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

As used herein, "Demand Media," "the Company," "our," "we," or "us" and similar terms include Demand Media, Inc. and its subsidiaries, unless the context indicates otherwise.

"Demand Media," "eHow," "Cracked" and other trademarks of ours appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

Item 1. Business

Overview

Demand Media is a diversified Internet media and domain services company. We have developed a leading Internet-based model for the professional creation and distribution of high-quality, commercially valuable, long-lived content at scale, and we operate the world's largest wholesale registrar and the world's second largest registrar overall.

Our business is comprised of two service offerings: Content & Media and Registrar.

- Our Content & Media service offering includes a content creation studio and community of freelance creative professionals, social media applications, and monetization tools. We deploy our proprietary Content & Media platform both to our owned and operated websites, such as eHow.com, LIVE**STRONG.COM** and Cracked.com, as well as to websites operated by our customers. According to comScore, our combined owned and operated websites comprised the 13th largest web property in the United States and we attracted over 125 million unique visitors and over 990 million page views worldwide in January 2013. Our differentiated approach to content creation is driven by consumers' desire to find specific information across the Internet. By listening to consumers and the signals that they send, we create and deliver content that fulfills their needs.

- Our Registrar service offering includes domain name registration services, including the world's largest wholesale registrar and the world's second largest registrar overall, with over 15 million Internet domain names under management as of December 31, 2012. As a registrar with both a wholesale and retail component, we provide domain name registration services and offer value-added services to our customers, including approximately 8,800 active resellers, comprised of small businesses, large e-commerce websites, Internet service providers and web-hosting companies. Upon the delegation by Internet Corporation for Assigned Names and Numbers ("ICANN") of new generic Top Level Domain ("gTLD") operating rights, we expect to also own and operate a registry for new gTLD strings and provide back-end registry services to third parties.

Our Content & Media service offering generates revenue primarily through the sale of advertising, both on our owned and operated websites and on our customers' websites, and through the sale or license of content we create for our customers. Our Registrar services offering currently generates revenue through domain name registration subscriptions and related value-added services.

In February 2013, we announced that our board of directors authorized a plan to explore separating the Company into two independent, publicly-traded companies: a pure-play Internet-based content and media company and a pure-play domain services company (hereinafter referred to as the “Proposed Business Separation”). We anticipate that the Proposed Business Separation will be structured as a tax-free pro rata distribution to stockholders of new publicly traded shares in the new domain services company. Consummation of the Proposed Business Separation is subject to final approval by our board of directors. Consummation of the Proposed Business Separation also is subject to satisfaction of several conditions, including confirmation of the transaction's tax-free treatment, receipt of listing approval, and the filing and effectiveness of a registration statement on Form 10 with the SEC. We have not yet finalized all of the details of the Proposed Business Separation and there is no assurance that the Proposed Business Separation as described herein will occur.

Demand Media was incorporated in Delaware in March 2006. We are headquartered in Santa Monica, California and have offices in other locations in North America, South America and Europe. Our common stock is listed on the New York Stock Exchange under the symbol “DMD”.

Content & Media Service Offering

Our Content & Media service offering creates media content, including text articles, videos and other formats, and publishes such content along with social media and monetization tools to our owned and operated websites and our network of customer websites. Key elements of our solution include:

Content Creation

Our Content & Media service offering is focused on creating highly relevant and specific online text articles, videos and other content formats at scale. We strive to create relevant and valuable long-lived content with positive growth characteristics that is projected to yield an attractive financial return over its expected useful life. Our content creation process employs a series of proprietary technologies, algorithms and processes. First, we analyze user behavior data to identify commercially valuable topics that are in-demand. Once commercially valuable titles have been identified, our community of quality freelance professionals undergo a multi-step process, whereby they quality check, edit and approve specific articles and video titles. Our creators can then claim titles for text articles, videos and other content formats by selecting from the database of titles that we have made available to them online. Creators whom have been segmented based on experience are only permitted to view and select titles within the subject matter categories with respect to which they have demonstrated subject matter expertise. After the creative professional submits work product to us, it undergoes a series of human editorial reviews, including copy editing, fact checking and reference checking, as well as an automated plagiarism check.

Community of Freelance Creative Professionals

We engage our community of freelance creative professionals, including writers, filmmakers, producers and copy editors, to create original, commercially valuable online text and video content at scale. In order to ensure that we engage highly qualified content creators with relevant experience, the individuals undergo a rigorous qualification process, which may include the submission of writing samples or examples of previously published work, demonstration of relevant subject matter expertise and minimum experience thresholds before they are allowed to participate in generating content for our network of owned and operated websites and customer websites. On some of our video projects, we may engage the services of recognized screen personalities, subject matter experts, make-up artists, set designers and others.

Through our automated and proprietary platform and processes, we enable our freelance creative professionals to reach an audience of millions and earn income from available work assignments. We believe that we offer our freelance creative professionals the ability to pursue titles and topics in the categories that most align with their area of expertise and provide competitive payments for their services.

Content Distribution

Owned and Operated We deploy our content and system of monetization tools on our owned and operated websites, which, according to comScore, collectively attracted over 125 million worldwide unique visitors and generated over 990 million page views globally during the month ended January 31, 2013. In addition to the content and monetization features provided through our platform, some of our owned and operated websites also feature unique social and mobile applications. Users visit our sites through search engine referrals, direct navigation, social media referrals, web-based mobile applications and online marketing activities. Our websites are designed to be easily discoverable by users due to the combination of relevant content, search engine optimization and the ability of users to recommend and share our content via social media websites such as Facebook.

Among our portfolio of owned and operated websites, eHow.com is our most successful website to-date based on the number of monthly unique visitors. eHow.com is the 12th largest website in the United States with approximately 62 million unique visitors in the U.S. during the month ended January 31, 2013 as measured by comScore. eHow.com's library includes approximately 3 million text articles and over 150,000 instructional videos that are presented in an easy-to-understand manner. We have begun to significantly increase our production of Spanish-language content and have published most of that content to a Spanish-language version of eHow known as eHowenEspanol.com. We plan to expand the production of non-English content and to publish that content to additional owned and operated websites.

Another of our owned and operated websites, LIVE**STRONG.COM**, had over 18 million unique users in the U.S. in January 2013 according to comScore. LIVE**STRONG.COM** has an extensive library of health, fitness, lifestyle and nutrition text articles and videos. This content, combined with interactive tools, user-contributed nutritional information, social media community features, helps users create customized goals and monitor their health, fitness and life achievements.

In addition to eHow.com and LIVE**STRONG.COM**, our owned and operated websites include Cracked.com, a leading humor website offering original and engaging comedy-driven text articles and videos created by our in-house editorial staff and website enthusiasts, as well as other websites across a number of verticals, such as casual games, sports, automotive and general entertainment. The Cracked network ranked as the number one humor property in the U.S. in January 2013 and had over 9.6 million unique users in that month according to comScore.

Customer Network Our customer network includes leading publishers, brands and retailers, providing the potential to expand our distribution and enhance our monetization opportunities. For example, we distribute content to our customer network through our content channel service. This approach allows us to provide content as a hosted solution to our customers so that our content is seamlessly integrated on sections of their websites. Our content channel offerings are designed to generate incremental traffic and revenue for our customers.

In addition, YouTube is a major distributor of our video content, and our videos on YouTube have been viewed more than 4 billion times to date. We maintain several video channels on YouTube, from our eHow-branded channel to three premium channels under a content production agreement we entered with Google in the fourth quarter of 2011.

Monetization

We have developed a multi-faceted, proprietary system incorporating advertising networks, including Google AdSense, designed to maximize yields. Our system of monetization tools includes contextual matching algorithms which match advertisements with the content displayed on a website page, yield optimization systems which continuously evaluate performance of advertisements on desktop and mobile-optimized websites to maximize revenue and ad management infrastructures to manage multiple ad formats and control ad inventory. We also have direct sales teams that sell display, rich media and innovative advertisements as well as undeveloped websites.

We deploy our monetization platform to our owned and operated websites, our network of customer websites and our portfolio of over 500,000 undeveloped websites as well as to undeveloped websites owned by our customers. Consistent with other performance-based advertising programs, we enter into revenue-sharing arrangements with website publishers that utilize our system of monetization tools.

Social Media Applications

Our integrated social media applications for publishers and brands, including Pluck and CoveritLive, help drive audience, insights and revenue. Companies and website publishers primarily use our social media applications to add community-building features to their websites and mobile applications. Key capabilities include user profiles, comments, forums, reviews, real-time blogging, content sharing, media galleries, reward badges, groups and messaging. Through our social media products, websites can bridge user actions, identities and relationships to leading social networks such as Facebook.

Registrar Service Offering

We own and operate eNom, the world's largest wholesale registrar of Internet domain names and the world's second largest registrar overall, with over 15 million domain names under management as of January 31, 2013. We also acquired Name.com in the fourth quarter of 2012 to strengthen our retail registrar service offering. Name.com, which focuses on individual and small business customers, had approximately 1.5 million domain names under management as of December 31, 2012. Through eNom, we provide domain name registration services and related value-added services to resellers, including small businesses, e-commerce websites, Internet service providers and web-hosting companies. These resellers, in turn, contract directly with domain name registrants to deliver these services. Our wholesale Registrar service offering gives resellers the choice of either a highly customizable API model or a turnkey solution. Our customizable API solution includes a selection of over 300 commands and integrates with third-party merchant account and billing tools, hosting and email tools as well as other value-added services. Our turnkey reseller solution allows a reseller to quickly start selling our suite of products through their own website.

Through our Registrar service offering, we currently provide the following services to our customers:

Domain Name Look-up and Registration

We offer our customers the ability to search for and register Internet domain names through our wholesale and retail registrars. Our wholesale and retail registrars serve existing and potential new customers looking to register new domain names or purchase existing domain names and allows customers to renew their existing registered domain names. Users can search for and identify an available domain name that best fits their needs, and in just a few clicks can claim and register the name. In addition, we offer customers the ability to transfer the registration of a single domain name or multiple domain names to us from other registrars using our automated domain name transfer service. In addition, if a domain name is currently unavailable, customers can pre-order the domain name to the extent that it becomes available in the future.

Domain Name System

Our Registrar service offering facilitates a significant portion of the world's domain name system Internet traffic with an average of over 2 billion DNS queries resolved per day. A DNS query represents the process of translating a domain name requested by an Internet user into the Internet Protocol, or IP, address, of the device hosting the requested website.

Value-Added Services

In addition to domain name registration services, we also offer a number of other products and services designed to help our customers easily develop, enhance and protect their domains, including the following:

- third-party website security services, such as Secure Socket Layer, or SSL, certificates;
- identification protection services that help keep domain owners' information private through our ID Protect service;
- web hosting plans for both Linux and Windows; and
- customizable email accounts that allow the customer to set up multiple mailboxes using a domain name.

We have also developed a number of proprietary services designed to help enhance visibility and help drive traffic to our customers' sites, including business listing services to help our customers advertise through Whois lookup inquiries and Rich Content, which allows website owners to add articles and videos from our content library to their sites. In addition, through NameJet, a joint venture with Web.com, we offer domain name auction services that provide a secondary market for the purchase and sale of domains.

Registry Related Services

ICANN recently authorized the launch of a program for the introduction of new gTLDs, defined as the "New gTLD Program". We believe that the New gTLD Program will present a variety of significant potential revenue opportunities commencing in late 2013 or early 2014, including operating the back-end platform infrastructure for new gTLD registries, owning and operating one or more gTLDs and becoming a registry in our own right, as well as registering a greater number of domains over time through our existing wholesale and retail registrar channels. We expect to invest significant capital and resources during 2013 preparing for the launch of the New gTLD Program. These expenses include enhancing our registrar platform to accommodate the anticipated increase in domain registrations.

During 2012 we submitted 26 gTLD registry applications to ICANN under the New gTLD Program. In addition, we entered into a strategic collaboration agreement with a third party, Donuts Inc., pursuant to which we share equal rights to an additional 107 gTLD applications. We have also entered into a registry services agreement to provide registry back-end services to Donuts Inc., and will continue to market registry back-end services to the industry.

Technology

Our technologies include software applications built to run on independent clusters of standard and commercially available servers located at co-location facilities throughout North America and Europe. We make substantial use of off-the-shelf available open-source technologies such as Linux, PHP, MySQL, mongoDB, Memcache, and Lucene in addition to commercial platforms such as Microsoft, including Windows Operating Systems, SQL Server, and .NET. These systems are connected to the Internet via load balancers, firewalls, and routers installed in multiple redundant pairs. We also utilize third-party services to geographically deliver data using major content distribution network ("CDN") providers. Virtualization is heavily deployed throughout our technology architecture, which affords scaling dozens of media properties in an efficient and cost effective manner. We also utilize enterprise class storage systems combined with critical services to provide redundancy in order to maintain continued and seamless system availability in the event of most component failures.

Our data centers host our various public-facing websites and applications, as well as many of our back-end business intelligence and financial systems. Each of our significant owned and operated websites is designed to be fault-tolerant, with collections of application servers, typically configured in a load balanced state, in order to provide additional resiliency. The infrastructure is equipped with enterprise class security solutions to combat events such as large scale distributed denial of service attacks ("DDoS"). Our environment is staffed and equipped with a full scale monitoring solution, which includes a Network Operations Center that is continuously staffed.

Customers

We currently deploy our platform, including our content creation and distribution platform and our suite of social media tools, to website publishers and brand advertisers, and our Registrar products and services to resellers, including large e-commerce websites, Internet service providers and web-hosting companies and to retail consumers. Our top three Registrar customers, in the aggregate, represent approximately 9% of our total consolidated revenue.

Competition

Content & Media

The online content and media market we participate in is new, rapidly evolving and intensely competitive. Competition is expected to intensify in the future as more companies enter the space. We compete for business on a number of factors including return on marketing investment, price, access to targeted audiences and quality. Our principal competitors in this space include traditional Internet companies like Yahoo!, AOL and IAC, all of which are making significant investments in order to compete with aspects of our business. Additionally, we compete with websites that focus on particular areas of consumer interest such as WebMD, DailyBurn.com, and TheStreet.com. With respect to our social media tools we compete with companies such as Jive Software and Bazaarvoice.

Registrar Services

The markets for domain name registration and web-based services are intensely competitive. We compete for business on a number of factors including price, value-added services, such as e-mail and web-hosting, customer service and reliability. Our principal competitors include existing registrars, such as GoDaddy, Tucows, Web.com and Melbourne IT, and new registrars entering the domain name registration business. Once the New gTLD Program is fully implemented, we anticipate that we would compete with registry operators, including VeriSign, Affilias, the Public Interest Registry, country-code TLD operators, and others that are delegated new gTLDS under the New gTLD Program.

Intellectual Property

Our intellectual property, consisting of trade secrets, trademarks, copyrights and patents, is, in the aggregate, important to our business. We rely on a combination of trade secret, trademark, copyright and patent laws in the United States and other jurisdictions, together with confidentiality agreements and technical measures, to protect the confidentiality of our proprietary rights. As of December 31, 2012, we have been granted 18 patents by the United States Patent and Trademark Office and have 26 patent applications pending in the United States and other jurisdictions. Our patents expire between 2022 and 2031. We rely more heavily on trade secret protection than patent protection. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. In addition, because of the relatively high cost we would experience in registering all of our copyrights with the United States Copyright Office, we generally do not register the copyrights associated with our content with the United States Copyright Office.

Government Regulation

Advertising and promotional information presented to visitors on our websites and our other marketing activities are subject to federal and state consumer protection laws that regulate unfair and deceptive practices. In the United States, Congress has adopted legislation that regulates certain aspects of the Internet, including online content, user privacy, taxation, liability for third-party activities and jurisdiction.

Federal, state, local and foreign governments are also considering other legislative and regulatory proposals that would regulate the Internet in more and different ways than exist today. It is impossible to predict whether new taxes will be imposed on our services, and depending upon the type of such taxes, whether and how we would be affected. Increased regulation of the Internet both in the United States and abroad may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition or operational results.

Employees

As of December 31, 2012, we had over 700 employees. None of our employees is represented by a labor union or is subject to a collective bargaining agreement. We believe that relations with our employees are good.

Available Information

We file reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC. We make available free of charge in the investor relations section of our corporate website (http://ir.demandmedia.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. References to the Company's corporate website address in this report are intended to be inactive textual references only, and none of the information contained on our website is part of this report or incorporated in this report by reference.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We also webcast our earnings calls and certain events we participate in or host with members of the investment community on the investor relations section of our corporate website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, and press and earnings releases on the investor relations section of our corporate website. Investors and others can receive notifications of new press releases and SEC filings by signing up for email alerts. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on the investor relations section of our corporate website under the heading "Corporate Governance." The content included on our websites is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Item 1A. Risk Factors

In addition to the other information set forth in this Annual Report on Form 10-K, you should consider carefully the risks and uncertainties described below, which could materially adversely affect our business, financial condition and results of operations.

Risks Relating to our Content & Media Service Offering

We are dependent upon certain material agreements with Google for a significant portion of our revenue. A termination of these agreements, or a failure to renew them on favorable terms, would adversely affect our business.

We have an extensive relationship with Google and a significant portion of our revenue is derived from cost-per-click performance-based advertising provided by Google. For the year ended December 31, 2011 and 2012, we derived approximately 33% and 38%, respectively, of our total revenue from our various advertising and content arrangements with Google. We use Google for cost-per-click advertising and cost-per-impression advertising on our owned and operated websites and on our network of customer websites, and receive a portion of the revenue generated by advertisements provided by Google on those websites. We have entered into agreements with Google related to (i) advertising for our developed websites, such as eHow, and our undeveloped websites, (ii) our use of Google's DoubleClick ad-serving platform to deliver advertisements to our developed websites, and (iii) a revenue-sharing arrangement with respect to revenue generated by our content posted on Google's YouTube. Each such agreement expires in the third quarter of 2014. Google, however, has termination rights in these agreements with us, including the right to terminate before the expiration of the terms upon the occurrence of certain events, including if our content violates the rights of third parties and other breaches of contractual provisions, a number of which are broadly defined. There can be no assurance that our agreements with Google will be extended or renewed after their respective expirations or that we will be able to extend or renew our agreements with Google on terms and conditions favorable to us. If our agreements with Google, in particular the cost-per-click agreement for our developed websites, are terminated, we may not be able to enter into agreements with alternative third-party advertisement providers or ad-serving platforms on acceptable terms or on a timely basis or both. Any termination of our relationships with Google, and any extension or renewal after the initial term of such agreements on terms and conditions less favorable to us, would have a material adverse effect on our business, financial condition and results of operations.

Our advertising agreements with Google may not continue to generate levels of revenue commensurate with what we have achieved during past periods. Our ability to generate online advertising revenue from Google depends on its assessment of the quality and performance characteristics of Internet traffic resulting from online advertisements on our owned and operated websites and on our network of customer websites as well as other factors determined by Google. We have no control over any of these assessments or over Google's advertising technology platforms. Google may from time to time change its existing, or establish new, methodologies and metrics for valuing the quality of Internet traffic and delivering cost-per-click advertisements. Any changes in these methodologies, metrics and advertising technology platforms could decrease the advertising rates that we receive and/or the amount of revenue that we generate from online advertisements. Since most of our agreements with Google contain exclusivity provisions, we are prevented from using other providers of services similar to those provided by Google. In addition, Google may at any time change or suspend the nature of the service that it provides to online advertisers and the catalog of advertisers from which online advertisements are sourced. These types of changes or suspensions would adversely impact our ability to generate revenue from cost-per-click advertising. Any change in the type of services that Google provides to us could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to continue to drive and retain visitors to our owned and operated websites and to our customer websites by offering high-quality, engaging and commercially valuable content at scale in a cost-effective manner, our business, financial condition and results of operations could be adversely affected.

The primary method that we use to attract traffic to our owned and operated websites and to our customer websites and convert these visitors into repeat users and customers is the content created by our freelance creative professionals. How successful we are in these efforts depends, in part, upon our continued ability to create and distribute high-quality, commercially valuable content at scale in a cost-effective manner that connects consumers with the formats and types of content that meets their specific interests and enables them to share and interact with the content and supporting communities. We may not be able to create the variety and types of content in a cost-effective manner or content that meets rapidly changing consumer demand in a timely manner, if at all. Any such failure to do so could adversely affect user and customer experiences and reduce traffic driven to our owned and operated websites and to our customer websites through which we distribute our content, which would adversely affect our business, revenue, financial condition and results of operations.

One effort we employ to create and distribute our content in a cost-effective manner is our proprietary technology and algorithms which are designed to predict consumer demand and return on investment. Our proprietary technology and algorithms have a limited history, and as a result the ultimate returns on our investment in content creation are difficult to predict, and may not be sustained in future periods at the same level as in past periods. Furthermore, our proprietary technology and algorithms are dependent on analyzing existing Internet search traffic data, and our analysis may be impaired by changes in Internet traffic or search engines' methodologies, which we do not have any control over. The failure of our proprietary technology and algorithms to accurately identify new content topics and formats, at scale, as well as the failure to create or effectively distribute new content, would have an adverse impact on our business, revenue, financial condition and results of operations.

Google, the largest provider of search engine referrals to the majority of our owned and operated websites, regularly deploys changes to its search engine algorithms, some of which have led to fluctuations in the total number of Google search referrals to our owned and operated and network of customer websites. In 2011, the overall impact of these changes on our owned and operated websites was negative, primarily due to a decline in traffic to eHow.com, our largest website. In 2012, Google continued to make changes to its search engine algorithms; however, we do not believe that these changes in the aggregate had an overall negative impact on our traffic.

During 2011 and 2012, and in response to the changes in search engine algorithms in 2011, we performed an evaluation of our existing content library to identify potential improvements in our content creation and distribution platform. We intend to evolve and continuously improve our content creation and distribution platform and to create new content formats to meet rapidly changing consumer demand. During 2011 and 2012, we made certain improvements to this platform including the establishment of more stringent criteria for the admission of content creators, segmentation of creators by subject matter expertise, an increase in our investment in video, long-form content and images, publication of content directed at international markets and in languages other than English, addition of content production algorithms targeted toward ensuring that each additional unit of content published is unique in relation to existing content units, as well as an expansion of distribution of our content to our network of customer websites. As we made these improvements to our content creation and distribution platform, we significantly reduced the level of our overall investment in media content in 2012 when compared to our content investment in 2011. Based on our assessment of the results of these improvements, we began to increase our investment in media content over the course of 2012. We anticipate making increased media content expenditures in 2013 compared to 2012, including additional investment in short-form articles on our owned and operated sites including eHow.com, growth in content published on our network of customer websites and creation of new content formats, including subscription content, designed to further diversify our content offering. The continued creation of media content through our creation and distribution platform is critical to the long-term growth of traffic to our owned and operated websites as well as our network of customer websites. There can be no assurance that these changes or any future changes, including the planned increase in content production, will be successfully implemented. If we are unsuccessful in increasing the production of content that successfully attracts traffic, our traffic and revenue growth could be adversely impacted.

Another method we employ to attract and acquire new, and retain existing, users and customers is commonly referred to as search engine optimization ("SEO"). SEO involves developing websites to rank well in search engine results. Our ability to successfully manage SEO efforts across our owned and operated websites and our customer websites is dependent on our timely and effective modification of SEO practices implemented in response to periodic changes in search engine algorithms and methodologies and changes in search query trends. Our failure to successfully manage our SEO strategy could result in a substantial decrease in traffic to our owned and operated websites and to our customer websites through which we distribute our content, which would result in substantial decreases in conversion rates and repeat business, as well as increased costs if we were to replace free traffic with paid traffic. Any or all of these results would adversely affect our business, revenue, financial condition and results of operations.

Even if we succeed in driving traffic to our owned and operated websites and to our customer websites, neither we nor our advertisers and customers may be able to monetize this traffic or otherwise retain consumers. Our failure to do so could result in decreases in customers and related advertising revenue, which would have an adverse effect on our business, revenue, financial condition and results of operations.

If Internet search engines' methodologies are modified, traffic to our owned and operated websites and to our customers' websites and corresponding consumer origination volumes could decline.

We depend in part on various Internet search engines, such as Google, Bing, Yahoo!, and other search engines to direct a significant amount of traffic to our owned and operated websites. For year ended December 31, 2012, we estimate that approximately 40% of the page view traffic directed to our owned and operated websites came directly from these Internet search engines (and a majority of the traffic from search engines came from Google), according to our internal data. Our ability to maintain the number of visitors directed to our owned and operated websites and to our customers' websites through which we distribute our content by search engines is not entirely within our control. Some of our owned and operated websites and our customers' websites have experienced fluctuations in search result rankings and we cannot provide assurance that similar fluctuations may not continue to occur in the future.

Changes in the methodologies or algorithms used by Google or other search engines to display results could cause our owned and operated websites or our customers' websites to receive less favorable placements or be removed from the search results. Internet search engines could decide that content on our owned and operated websites and on our customers' websites, including content that is created by our freelance creative professionals, is unacceptable or violates their corporate policies. It is also possible that we could make changes to our existing websites or those of our customers that Google or other search engines could view unfavorably and thereby cause a decrease in search referral traffic.

Google, the largest provider of search engine referrals to the majority of our owned and operated websites, regularly deploys changes to its search engine algorithms. These changes have led the Company to experience fluctuations in the total number of Google search referrals to its owned and operated and network of customer websites. In 2011, the overall impact of these changes on the Company's owned and operated websites was negative, primarily due to a decline in traffic to eHow.com, the Company's largest website. In 2012, Google continued to make changes to its search engine algorithms; however, we do not believe that these changes in the aggregate had an overall negative impact on our traffic.

There cannot be any assurance as to whether these changes or any future changes that may be made by Google or any other search engines might further impact our content and media business. Any reduction in the number of users directed to our owned and operated websites and to our customers' websites would likely negatively affect our ability to earn revenue. If traffic on our owned and operated websites and on our customers' websites declines, we may also need to resort to more costly sources to replace lost traffic, and such increased expense could adversely affect our business, revenue, cash flows, financial condition and results of operations.

We base our capital allocation decisions primarily on our analysis of the predicted internal rate of return on content. If the estimates and assumptions we use in calculating internal rate of return on content are inaccurate, our capital may be inefficiently allocated. If we fail to appropriately allocate our capital, our growth rate and financial results will be adversely affected.

We invest in content and content formats based on our calculation of the internal rate of return on previously published content cohorts for which we believe we have sufficient data. For purposes of these calculations, a content cohort is typically defined as all of the content we publish in a particular quarter. We calculate the internal rate of return on a cohort of content as the annual discount rate that, when applied to the advertising revenue, less certain direct ongoing costs, generated from the cohort over a period of time, produces an amount equal to the initial investment in that cohort. Our calculations are based on certain material estimates and assumptions that may not be accurate. Accordingly, the calculation of internal rate of return may not be reflective of our actual returns. The material estimates and assumptions upon which we rely include estimates about portions of the costs to create content and the revenue allocated to that content. We make estimates regarding when revenue for each cohort will be received. Our internal rate of return calculations are highly dependent on the timing of this revenue, with revenue earned earlier resulting in greater internal rates of return than the same amount of revenue earned in subsequent periods.

We use more estimates and assumptions to calculate the internal rate of return on video content because our systems and processes to collect historical data on video content are less robust. As a result, our data on video content may be less reliable. If our estimates and calculations do not accurately reflect the costs or revenue associated with our content, the actual internal rate of return of a cohort may be more or less than our estimated internal rate of return for such cohort. In such an event, we may misallocate capital and our growth, revenue, financial condition and results of operations could be negatively impacted.

We face significant competition to our Content & Media service offering, which we expect will continue to intensify, and we may not be able to maintain or improve our competitive position or market share.

We operate in highly competitive and still developing markets. We compete for advertisers and customers on the basis of a number of factors including return on marketing expenditures, price of our offerings, and ability to deliver large volumes or precise types of customer traffic. This competition could make it more difficult for us to provide value to our consumers, our advertisers and our freelance creative professionals and result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, decreased website traffic and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, revenue, financial condition and results of operations. There can be no assurance that we will be able to compete successfully against current or future competitors.

We face intense competition from a wide range of competitors, including online marketing and media companies, social media outlets, integrated social media platforms and other specialist and enthusiast websites. Our current principal competitors include:

- *Online Marketing and Media Companies.* We compete with other Internet marketing and media companies, such as AOL, IAC and various startup companies as well as leading online media companies such as Yahoo!, for online marketing budgets. Most of these competitors compete with us across several areas of consumer interest, such as do-it-yourself, health, home and garden, beauty and fashion, golf, outdoors and humor.

- *Social Media Outlets.* We compete with social media outlets such as Facebook, Twitter and Google+, where brands and advertisers are focusing a significant portion of their online advertising spend in order to connect with their customers.

- *Integrated Social Media Applications.* We compete with various software technology competitors, such as Jive Software, in the integrated social media space where we offer our social media applications.

- *Specialized and Enthusiast Websites.* We compete with companies that provide specialized consumer information websites, particularly in the do-it-yourself, health, home and garden, beauty and fashion, golf, outdoors and humor categories, as well as enthusiast websites in specific categories, including message boards, blogs and other enthusiast websites maintained by individuals and other Internet companies.

- *Distributed Content Creation Platforms.* We compete with companies that employ a content creation model with aspects similar to our platform, such as the use of freelance creative professionals.

We may be subject to increased competition with any of these types of businesses in the future to the extent that they seek to devote increased resources to more directly address the online market for the professional creation of commercially valuable content at scale. For example, if Google chose to compete more directly with us, we may face the prospect of the loss of business or other adverse financial consequences given that Google possesses a significantly greater consumer base, financial resources, distribution channels and patent portfolio. In addition, should Google decide to directly compete with us in areas such as content creation, it may decide for competitive reasons to terminate or not renew our commercial agreements and, in such an event, we may experience a rapid decline in our revenue from the loss of our source for cost-per-click advertising on our owned and operated websites and on our network of customer websites. In addition, Google's access to more comprehensive data regarding user search queries through its search algorithms would give it a significant competitive advantage over everyone in the industry, including us. If this data is used competitively by Google, sold to online publishers or given away for free, our business may face increased competition from companies, including Google, with substantially greater resources, brand recognition and established market presence.

In addition to Google, many of our current and other potential competitors enjoy substantial competitive advantages, such as greater name recognition, longer operating histories, substantially greater financial, technical and other resources and, in some cases, the ability to combine their online marketing products with traditional offline media such as newspapers or magazines. These companies may use these advantages to offer products and services similar to ours at a lower price, develop different products to compete with our current offerings and respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. For example, both AOL and Yahoo! may have access to proprietary search data which could be utilized to assist them in their content creation processes. In addition, many of our current and potential competitors have established marketing relationships with and access to larger customer bases. As the markets for online and social media expand, we expect new competitors, business models and solutions to emerge, some of which may be superior to ours. Even if our platform is more effective than the products and services offered by our competitors, potential customers might adopt competitive products and services in lieu of using our services. For all of these reasons, we may not be able to compete successfully against our current and potential competitors.

Our Content & Media service offering primarily generates its revenue from advertising, and the reduction in spending by or loss of advertisers could seriously harm our business.

We generated 52% and 53%, respectively of our revenue for years ended December 31, 2011 and 2012 from advertising. One component of our platform that we use to generate advertiser interest in our content is our system of monetization tools, which is designed to match content with advertisements in a manner that optimizes revenue yield and end-user experience.

Advertisers will not continue to do business with us if their investment in advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. The failure of our yield-optimized monetization technology to effectively match advertisements with our content in a manner that results in increased revenue for our advertisers would have an adverse impact on our ability to maintain or increase our revenue from advertising.

We rely on third-party ad-providers, such as Google, to provide advertisements on our owned and operated websites and on our network of customer websites. Even if our content is effectively matched with such ad content, we cannot assure our current advertisers will fulfill their obligations under their existing contracts, continue to provide advertisements beyond the terms of their existing contracts or enter into any additional contracts. If any of our advertisers, but in particular Google, decided not to continue advertising on our owned and operated websites and on our network of customer websites, we could experience a rapid decline in our revenue over a relatively short period of time.

In addition, our customers who receive a portion of the revenue generated from advertisements matched with our content displayed on their websites, may not continue to do business with us if our content does not generate increased revenue for them. If we are unable to remain competitive and provide value to advertisers they may stop placing advertisements with us or with our network of customer websites, which would negatively harm our business, revenue, financial condition and results of operations.

Furthermore, brands and advertisers are increasingly focusing a portion of their online advertising budgets on social media outlets such as Facebook as well as on advertising network exchanges. If this trend were to continue and we were unable to offer competitive or similarly valued advertising opportunities, this could adversely impact our ability to maintain or increase our revenue from advertising.

Lastly, we believe that advertising spending on the Internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. These factors include:

- variations in expenditures by advertisers due to budgetary constraints;
- the cancellation or delay of projects by advertisers;
- the cyclical and discretionary nature of advertising spending;
- general economic conditions, as well as economic conditions specific to the Internet and online and offline media industry; and
- the occurrence of extraordinary events, such as natural disasters, international or domestic terrorist attacks or armed conflict.

If we are unable to generate advertising revenue due to factors outside of our control, then our business, financial condition and results of operations would be adversely affected.

Since the success of our Content & Media service offering has been closely tied to the success of eHow, if eHow's performance falters it could have a material adverse effect on our business, financial condition, and operations.

For both of the years ended December 31, 2011 and 2012, we generated approximately 31% of our revenue from eHow. No other individual Content & Media site was responsible for more than 10% of our revenue in these periods.

eHow depends on various Internet search engines to direct traffic to the site. For year ended December 31, 2012, we estimate that approximately 50% of eHow's page view traffic came from Google searches. The traffic directed to eHow and in turn the performance of the content created for and distributed on eHow may be adversely impacted by a number of factors related to Internet search engines, including the following: any further changes in search engine algorithms or methodologies similar to those previously implemented by Google, some of which had a negative effect on search referral traffic to eHow and a reduction in page views on eHow; our failure to properly manage SEO efforts for eHow; our failure to prevent internal technical issues that disrupt traffic to eHow; or reduced reliance by Internet users on search engines to locate relevant content. Additionally, we have already produced a significant amount of content that is housed on eHow and it may become difficult for us to continue to identify topics and produce content with the same level of broad consumer appeal as the content we have produced up to this point. A material adverse effect on eHow could result in a material adverse effect to Demand Media and its business, financial condition, and results of operations.

Poor perception of our brands, business or industry could harm our reputation and adversely affect our business, financial condition and results of operations.

Our business is dependent on attracting a large number of visitors to our owned and operated websites and our network of customer websites and providing leads and clicks to our advertisers and customers, which depends in part on our reputation within the industry and with our customers. Because our business is transforming traditional content creation models and is therefore not easily understood by casual observers, our brands, business and reputation are vulnerable to poor perception. For example, perception that the quality of our content may not be the same or better than that of other published Internet content, even though baseless, can damage our reputation. We are frequently the subject of unflattering reports in the media about our business and our model. While disruptive businesses are often criticized early on in their life cycles, we believe we are more frequently targeted than most because of the nature of the business we are disrupting-namely the traditional print and publication media as well as popular Internet publishing methods such as blogging. Any damage to our reputation could harm our ability to attract and retain advertisers, customers and freelance creative professionals who create a majority of our content, which would materially adversely affect our results of operations, financial condition and business. Furthermore, certain of our owned and operated websites, such as LIVE**STRONG**.com and eHow, as well as some of the content we produce for our network of customer websites, are associated with high-profile experts to enhance the websites' brand recognition and credibility. In addition, any adverse news reports, negative publicity or other alienation of all or a segment of our consumer base relating to these high-profile experts would reflect poorly on our brands and could have an adverse effect on our business. For example LIVE**STRONG**.com is a licensed trademark from the LIVE**STRONG** Foundation, which is the charitable foundation created by Lance Armstrong to promote cancer awareness and healthy lifestyles. While recent negative publicity surrounding Lance Armstrong has not had a material impact on the performance of LIVE**STRONG**.com to date, there can be no assurance that these events will not have a material adverse effect on its traffic and monetization in the future.

We rely primarily on creative professionals for a majority of our online content. We may not be able to attract or retain sufficient creative professionals to generate content on a scale or of a quality sufficient to grow our business. As we do not control those persons or the source of content, we are at risk of being unable to generate interesting and attractive features and other material content.

We rely primarily on freelance creative professionals for the content that we distribute through our owned and operated websites and our network of customer websites. We may not be able to attract or retain sufficient qualified and experienced creative professionals to generate content on a scale or of a quality sufficient to grow our business. For example, our premium video initiatives may require the engagement of producers, contributors, talent, editors and filmmakers with a specialized skill set, and there is no assurance that we will be able to engage such specialists in a cost-effective manner or at all. Furthermore, as we develop new content formats to meet changing consumer demand, we may not offer the volume of traditional content assignments that our creative professionals have grown accustomed to, and some of our creative professionals may seek assignments elsewhere or otherwise stop producing content for us. In addition, our competitors may attempt to attract members of our freelance creative professional community by offering compensation that we are unable to match. We believe that over the past four years our ability to attract and retain creative professionals has benefited from the weak overall labor market and from the difficulties and resulting layoffs occurring in traditional media, particularly newspapers. We are uncertain whether this combination of circumstances is likely to continue and any change to the economy or the media jobs market may make it more difficult for us to attract and retain freelance creative professionals. While each of our freelance creative professionals is screened through our pre-qualification process, we cannot guarantee that the content created by our creative professionals will be of sufficient quality to attract users to our owned and operated websites and to our network of customer websites. In addition, in the vast majority of cases we have no written agreements with these persons which obligate them to create articles or videos beyond the one article or video that they elect to create at any particular time and we have no ability to control their future performance. As a result, we cannot guarantee that our freelance creative professionals will continue to contribute content to us for further distribution through our owned and operated websites and our network of customer websites or that the content that is created and distributed will be sufficient to sustain our current growth rates. In the event that these creative professionals decrease their contributions of such content, we are unable to attract or retain qualified creative professionals or if the quality of such contributions is not sufficiently attractive to our advertisers or to drive traffic to our owned and operated websites and to our network of customer websites, we may incur substantial costs in procuring suitable replacement content, which could have a negative impact on our business, revenue and financial condition.

We may not be successful in developing new content formats, including paid subscription content, or acquiring, investing in or developing new lines of business, which may limit our future growth and have a negative effect on our business, revenue, financial condition and results of operations.

An important potential area of growth for us is the development of new content formats, including paid subscription content. We also regularly evaluate and consider acquiring or investing in new lines of business, or developing these new lines of business internally, including businesses that are ancillary to our existing Content and Media service offering. If we develop, acquire or invest in new lines of business, including the development of new content formats, we will need to develop, integrate and effectively manage these new businesses. For example, we have limited experience developing paid subscription content and we cannot be certain that we will be successful in implementing such new lines of business. These new lines of business may be subject to significant business, economic and competitive uncertainties and contingencies frequently encountered by new businesses in competitive environments, many of which are beyond our control, including the lack of market acceptance. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these new lines of business. In addition, if any new business which we acquire or develop or in which we invest does not progress as planned, we may not recover the funds and resources we have expended. Our inability to acquire, invest in or develop new lines of business, such as expanding our content offerings to include paid subscription content, may limit our future growth and have a negative effect on our business, revenue, financial condition and results of operations.

The loss of third-party data providers could significantly diminish the value of our services and cause us to lose customers and revenue.

We collect data regarding consumer search queries from a variety of sources. When a user accesses one of our owned and operated websites, we may have access to certain data associated with the source and specific nature of the visit to our website. We also license consumer search query data from third parties. Our Content & Media algorithms utilize this data to help us determine what content consumers are seeking, if that content is valuable to advertisers and whether we can cost-effectively produce this content. Some of these third-party consumer search data agreements are for perpetual licenses of a discrete amount of data and generally do not provide for updates of the data licensed. There can be no assurances that we will be able to enter into agreements with these third parties to license additional data on the same or similar terms, if at all. If we are not able to enter into agreements with these providers, we may not be able to enter into agreements with alternative third-party consumer search data providers on acceptable terms or on a timely basis or both. Any termination of our relationships with these consumer search data providers, or any entry into new agreements on terms and conditions less favorable to us, could limit the effectiveness of our content creation process, which would have a material adverse effect on our business, financial condition and results of operations. In addition, new laws or changes to existing laws in this area may prevent or restrict our use of this data. In such event, the value of our algorithms and our ability to determine what consumers are seeking could be significantly diminished.

If we are unable to attract new customers for our content channels service offering or our social media product applications, or to retain our existing customers of these products and services, our revenue could be lower than expected and our operating results may suffer.

Our content channels service offering helps publishers and brands broaden their reach online by creating topically relevant content to publish to their websites and utilizing our proprietary creation and distribution platform. We anticipate that a significant portion of our investment in media content in 2013 will result from our expanding investment in our content channels service offering. We currently have approximately 25 content channels partners and anticipate expanding this service offering during 2013 and beyond. In order to expand this service offering, we need to continue to generate new content channels customers and maintain our existing customers. If our existing and prospective content channels customers do not perceive our media content to be of sufficiently high quality, we may not be able to expand our content offering on the websites of existing customers, retain our current customers or identify and attract new customers. Our content channel agreements are generally two-year arrangements for the creation and distribution of media content, and typically include a revenue sharing arrangement with respect to different types of advertising generated by the display of our media content.

In addition, our enterprise-class social media tools allow websites to add feature-rich applications, such as user profiles, comments, forums, reviews, blogs, photo and video sharing, media galleries, groups and messaging offered through our social media application product suite. We also provide social media services by powering live events with social engagement tools. In addition to adding new customers for our social media products, to increase our revenue, we must sell additional social media products to existing customers and encourage existing customers to maintain or increase their usage levels. If our existing and prospective customers do not perceive our social media products to be of sufficiently high quality, we may not be able to retain our current customers or attract new customers. We sell our social media products pursuant to service agreements that are generally one to two years in length. Our customers have no obligation to renew their contracts for our products after the expiration of their initial commitment period, and these agreements may not be renewed at the same or higher level of service, if at all. In addition, these agreements generally require us to keep our product suite operational with minimal service interruptions and to provide limited credits to media customers in the event that we are unable to maintain these service levels. To date, service level credits have not been significant. Moreover, under some circumstances, some of our customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements, including the right to cancel if our social media product suite suffers repeated service interruptions.

If we are unable to attract new customers for our media products and services, including our content channels service offering and our social media products, our existing customers do not renew or terminate their agreements or we are required to provide service level credits to our social media customers in the future as a result of the operational failure of our social media products, then our operating results could be harmed.

Wireless devices and mobile phones are increasingly being used to access the Internet, and our online media services may not be as effective when accessed through these devices, which could cause harm to our business.

Historically, our Content & Media service offerings were designed for consumption on a desktop or laptop computer. However, the number of people who access the Internet through mobile devices such as smart-phones and tablets has increased substantially in the last few years. The smaller screens, lower resolution graphics and less convenient typing capabilities of these devices may make it more difficult for visitors to respond to our offerings. If we cannot effectively distribute our content, products and services on these devices, we could experience a decline in page views and corresponding revenue. In addition, while increasing rapidly, mobile advertising yields on average are currently lower than those for desktop and laptop devices. The continued increase in mobile consumption of our content, should it replace page views from desktop or laptop devices, may result in a reduction in our RPMs and/or Content & Media revenue. Also, if our Content & Media service offering on mobile devices is less attractive to advertisers and this segment of Internet traffic increases at a faster rate than traditional desktop or laptop Internet access our business, revenue, financial condition and results of operations may be negatively impacted.

We are dependent upon the quality of traffic in our network to provide value to online advertisers, and any failure in our quality control could have a material adverse effect on the value of our websites to our third-party advertisement distribution providers and online advertisers and thereby adversely affect our revenue.

We use technology and processes to monitor the quality of, and to identify any anomalous metrics associated with, the Internet traffic that we deliver to online advertisers and our network of customer websites. These metrics may be indicative of low quality clicks such as non-human processes, including robots, spiders or other software; the mechanical automation of clicking; and other types of invalid clicks or click fraud. Even with such monitoring in place, there is a risk that a certain amount of low-quality traffic, or traffic that is deemed to be invalid by online advertisers, will be delivered to such online advertisers. As a result, we may be required to credit future amounts owed to us by our advertisers. Furthermore, low-quality or invalid traffic may be detrimental to our relationships with third-party advertisement distribution providers and online advertisers, and could adversely affect our revenue.

The expansion of our owned and operated websites into new areas of consumer interest, products, services and technologies subjects us to additional business, legal, financial and competitive risks.

An important element of our business strategy is to grow our network of owned and operated websites to cover new areas of consumer interest, expand into new business lines and develop additional services, products and technologies. In directing our focus into new areas, we face numerous risks and challenges, including increased capital requirements, long development cycles, new competitors and the requirement to develop new strategic relationships. We cannot assure you that our strategy will result in increased net revenue or net income. Furthermore, growth into new areas may require changes to our existing business model and cost structure, modifications to our infrastructure and exposure to new regulatory and legal risks, any of which may require expertise in areas in which we have little or no experience. If we cannot generate revenue as a result of our expansion into new areas that are greater than the cost of such expansion, our operating results could be harmed.

As a creator and a distributor of Internet content, we face potential liability and expenses for legal claims based on the nature and content of the materials that we create or distribute, or that are accessible via our owned and operated websites and our network of customer websites. If we are required to pay damages or expenses in connection with these legal claims, our operating results and business may be harmed.

We rely on the work product of freelance creative professionals to create original content for our owned and operated websites and for our network of customer websites and for use in our marketing messages. As a creator and distributor of original content and third-party provided content, we face potential liability based on a variety of theories, including defamation, negligence, unlawful practice of a licensed profession, copyright or trademark infringement or other legal theories based on the nature, creation or distribution of this information, and under various laws, including the Lanham Act and the Copyright Act. We may also be exposed to similar liability in connection with content that we do not create but that is posted to our owned and operated websites and to our network of customer websites by users and other third parties through forums, comments, personas and other social media features. In addition, it is also possible that visitors to our owned and operated websites and to our network of customer websites could make claims against us for losses incurred in reliance upon information provided on our owned and operated websites or our network of customer websites. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. If we become subject to these or similar types of claims and are not successful in our defense, we may be forced to pay substantial damages. While we run our content through a rigorous quality control process, including an automated plagiarism program, there is no guarantee that we will avoid future liability and potential expenses for legal claims based on the content of the materials that we create or distribute. Should the content distributed through our owned and operated websites and our network of customer websites violate the intellectual property rights of others or otherwise give rise to claims against us, we could be subject to substantial liability, which could have a negative impact on our business, revenue and financial condition.

We may face liability in connection with our undeveloped owned and operated websites and our customers' undeveloped websites whose domain names may be identical or similar to another party's trademark or the name of a living or deceased person.

A number of our owned and operated websites and our network of customer websites are undeveloped or minimally developed properties that primarily contain advertising listings and links. As part of our registration process, we perform searches, analysis and screenings to determine if the domain names of our owned and operated websites in combination with the advertisements displayed on those sites violate the trademark or other rights owned by third parties. Despite these efforts, we may inadvertently register the domain names of properties that are identical or similar to another party's trademark or the name of a living or deceased person. Moreover, our efforts are inherently limited due to the fact that the advertisements displayed on our undeveloped websites are delivered by third parties and the advertisements may vary over time or based on the location of the viewer. We may face primary or secondary liability in the United States under the Anticybersquatting Consumer Protection Act or under general theories of trademark infringement or dilution, unfair competition or under rights of publicity with respect to the domain names used for our owned and operated websites. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, financial penalties and reputational harm, which could increase our costs of operations, reduce our profits or cause us to forgo opportunities that would otherwise support our growth.

We may not succeed in establishing our businesses internationally, which may limit our future growth.

One potential area of growth for us is in the international markets. We have launched a site in the United Kingdom, recently launched eHow en Español and eHow Brasil (Spanish and Portuguese language sites that target both the U.S., and the worldwide Spanish/Portuguese-speaking market) and are exploring launches in certain other countries. We have also been investing in translation capabilities for our technologies. Operating internationally, where we have limited experience, exposes us to additional risks and operating costs. We cannot be certain that we will be successful in introducing or marketing our services internationally or that our services will gain market acceptance or that growth in commercial use of the Internet internationally will continue. There are risks inherent in conducting business in international markets, including the need to localize our products and services to foreign customers' preferences and customs, difficulties in managing operations due to language barriers, distance, staffing and cultural differences, application of foreign laws and regulations to us, tariffs and other trade barriers, fluctuations in currency exchange rates, establishing management systems and infrastructures, reduced protection for intellectual property rights in some countries, changes in foreign political and economic conditions, and potentially adverse tax consequences. Our inability to expand and market our products and services internationally may have a negative effect on our business, revenue, financial condition and results of operations.

Risks Relating to our Registrar Service Offering

We face significant competition to our Registrar service offering, which we expect will continue to intensify. We may not be able to maintain or improve our competitive position or market share.

We face significant competition from existing registrars and from new registrars that continue to enter the market. ICANN currently has approximately 1,000 registrars to register domain names in one or more of the generic top level domains, or gTLDs, that it oversees. There are relatively few barriers to entry in this market, so as this market continues to develop we expect the number of competitors to increase. The continued entry into the domain name registration market of competitive registrars and unaccredited entities that act as resellers for registrars, and the rapid growth of some competitive registrars and resellers that have already entered the market, may make it difficult for us to maintain our current market share.

The anticipated introduction of new gTLDs by ICANN (the "New gTLD Program") could substantially change the domain name industry in unexpected ways. If we do not properly manage our response to the change in business environment, it could adversely impact our competitive position or market share.

The market for domain name registration and other related web-based services is intensely competitive and rapidly evolving. We expect competition to increase from existing competitors as well as from new market entrants. Most of our existing competitors are expanding the variety of services that they offer. These competitors include, among others, domain name registrars, website design firms, website hosting companies, Internet service providers, Internet portals and search engine companies, including GoDaddy, Web.com, Tucows, Microsoft and Yahoo!. Some of these competitors have greater resources, more brand recognition and consumer awareness, greater international scope and larger bases of existing customers than we do. As a result, we may not be able to compete successfully against them in future periods.

In addition, these and other large competitors, in an attempt to gain market share, may offer aggressive price discounts on the services they offer. These pricing pressures may require us to match these discounts in order to remain competitive, which would reduce our margins, or cause us to lose customers who decide to purchase the discounted service offerings of our competitors. As a result of these factors, in the future it may become increasingly difficult for us to compete successfully.

If our customers do not renew their domain name registrations or if they transfer their existing registrations to our competitors and we fail to replace their business, our business would be adversely affected.

Our success depends in large part on our customers' renewals of their domain name registrations. Registrar service revenue, which is closely tied to domain name registrations, represented approximately 37% and 35% of total revenue in years ended December 31, 2011 and 2012, respectively. Our customer renewal rate for expiring domain name registrations was approximately 74% and 72% in the years ended December 31, 2011 and 2012, respectively. If we are unable to maintain or increase our overall renewal rates for domain name registrations or if any decrease in our renewal rates, including due to transfers, is not offset by increases in new customer growth rates, our customer base and our revenue would likely decrease. This would also reduce the number of domain name registration customers to whom we could market our other higher-margin services, thereby further potentially impacting our revenue and profitability, driving up our customer acquisition costs and harming our operating results. Since our strategy is to expand the number of services we provide to our customers, any decline in renewals of domain name registrations not offset by new domain name registrations would likely have an adverse effect on our business, revenue, financial condition and results of operations.

Regulation could reduce the value of Internet domain names or negatively impact the Internet domain name acquisition process, which could significantly impair the value attributable to our acquisitions of Internet domain names.

The acquisition of expiring domain names for development, undeveloped website commercialization, sale or other uses, involves the registration of thousands of Internet domain names, both with registries in the United States and internationally. We have and intend to continue to acquire previously-owned Internet domain names that have expired and that, following the period of permitted redemption by their prior owners, have been made available for registration. The acquisition of Internet domain names generally is governed by regulatory bodies. The regulation of Internet domain names in the United States and in foreign countries is subject to change. Regulatory bodies could establish additional requirements for previously-owned Internet domain names or modify the requirements for holding Internet domain names. As a result, we might not acquire or maintain names that contribute to our financial results in the same manner as we currently do. A failure to acquire or maintain such Internet domain names could adversely affect our business, revenue, financial condition and results of operations.

We are participating in ICANN's New gTLD Program that was approved in June 2011. Our initiative with respect to the New gTLD Program includes applying for certain gTLD operator rights, as well as offering technical back-end infrastructure services to new registry operators (our "gTLD Initiative"), both of which may present us with unique operational and other risks and expose us to increased costs. If we are unsuccessful in managing these risks, our business, financial condition and results of operations could be adversely affected.

We are pursuing certain opportunities in connection with ICANN's New gTLD Program, including operating the technical back-end infrastructure for new gTLD registries and/or owning and operating one or more of our own gTLD registries. In June 2012, ICANN announced that it had received over 1,900 applications related to over 1,400 new gTLDs, with new registration opportunities for consumers expected to be available beginning in 2013. Through a subsidiary, we have applied to operate registries for a number of gTLDs on a stand-alone basis, and may acquire rights in an additional number of gTLDs based on our strategic relationship with Donuts Inc., a third-party gTLD applicant. This subsidiary has also been selected to provide technical back-end infrastructure services for any new gTLD operator rights acquired by Donuts Inc. We currently have no operating experience providing technical back-end infrastructure services to new or existing registries or acting as an owner and operator of domain name registries for gTLD strings. In addition, we will be required to compete with other established and more experienced operators in these proposed service offerings, some of whom have greater financial, marketing and other resources than we do, including companies that are existing competitors as well as new entrants into the domain name industry. We may not be successful in implementing the businesses associated with our gTLD Initiative if we or our registry customers are awarded new gTLDs under the New gTLD Program. If we are unsuccessful in implementing our gTLD Initiative, including managing these risks and increased costs, our business, financial condition and results of operations could be adversely affected.

ICANN's application submission and approval process for the New gTLD Program is new and untested. We may lose some of our current and future investment under our gTLD Initiative in connection with the New gTLD Program, and the returns on our investment in our gTLD Initiative may not meet our current expectations, either of which could adversely affect our business, financial condition and results of operations.

To date, we have invested approximately $18 million in applications for gTLD operating rights in connection with our gTLD Initiative to pursue the opportunity to be a registry operator of new gTLDs under ICANN's New gTLD Program, and we may be required to expend significant additional funds in order to be a successful applicant for gTLDs. Our gTLD Initiative also involves our active participation in a new, complex and untested process with respect to the application and awarding of gTLD strings by ICANN, which may require us to rely upon or negotiate and collaborate with independent third parties, including Donuts Inc., in order to be a successful applicant for contested gTLD strings. We will also need to invest capital in the build out of the technical back-end infrastructure necessary to operate gTLDs for us and our customers, including Donuts Inc., in advance of gTLD strings being awarded by ICANN. There can be no assurances that we or Donuts Inc. will ultimately be successful in acquiring new gTLD operator rights, or be found as qualified applicants, in ICANN's process for awarding gTLDs, or that we or Donuts Inc. will be granted the right to be a registry operator by ICANN. Furthermore, there is no guarantee that any new gTLD operator rights acquired by us or Donuts Inc. will be successful. If we are unsuccessful in pursuing either aspect of our gTLD Initiative, we may lose some of our current and future investment in our gTLD Initiative. In addition, the return on investment in our gTLD Initiative may not meet our current expectations justifying such investment. The loss of some of our investment or lower than expected return on investment in our gTLD Initiative could adversely affect our business, financial condition and results of operations.

We could face liability, or our corporate image might be impaired, as a result of the activities of our customers or the content of their websites.

Our role as a registrar of domain names and a provider of website hosting services may subject us to potential liability for illegal activities by our customers on their websites. For example, we were named as a party to a lawsuit that has subsequently been dismissed in which a group registered a domain name through our registrar and proceeded to fill the site with content that was allegedly defamatory to another business whose name is similar to the domain name. We have also been criticized in the past for not being more proactive in policing online pharmacies acting in violation of U.S. laws. We provide an automated service that enables users to register domain names and populate websites with content. We do not monitor or review, nor does our accreditation agreement with ICANN require that we monitor or review, the appropriateness of the domain names we register for our customers or the content of our network of customer websites, and we have no control over the activities in which our customers engage. While we have policies in place to terminate domain names or to take other appropriate action if presented with a court order, governmental injunction or evidence of illegal conduct from law enforcement or a trusted industry partner, we have in the past been publicly criticized for not being more proactive in this area by consumer watchdogs and we may encounter similar criticism in the future. This criticism could harm our reputation. Conversely, were we to terminate a domain name registration in the absence of legal compulsion or clear evidence of illegal conduct from a legitimate source, we could be criticized for prematurely and improperly terminating a domain name registered by a customer. In addition, despite the policies we have in place to terminate domain name registrations or to take other appropriate actions, customers could nonetheless engage in prohibited activities.

Several bodies of law may be deemed to apply to us with respect to various customer activities. Because we operate in a relatively new and rapidly evolving industry, and since this field is characterized by rapid changes in technology and in new and growing illegal activity, these bodies of laws are constantly evolving. Some of the laws that apply to us with respect to customer activity include the following:

- The Communications Decency Act of 1996, or CDA, generally protects online service providers, such as Demand Media, from liability for certain activities of their customers, such as posting of defamatory or obscene content, unless the online service provider is participating in the unlawful conduct. Notwithstanding the general protections from liability under the CDA, we may nonetheless be forced to defend ourselves from claims of liability covered by the CDA, resulting in an increased cost of doing business.

- The Digital Millennium Copyright Act of 1998, or DMCA, provides recourse for owners of copyrighted material who believe that their rights under U.S. copyright law have been infringed on the Internet. Under this statute, we generally are not liable for infringing content posted by third parties. However, if we receive a proper notice from a copyright owner alleging infringement of its protected works by web pages for which we provide hosting services, and we fail to expeditiously remove or disable access to the allegedly infringing material, fail to post and enforce a digital rights management policy or a policy to terminate accounts of repeat infringers, or otherwise fail to meet the requirements of the safe harbor under the statute, the owner may seek to impose liability on us.

Although established statutory law and case law in these areas to date generally have shielded us from liability for customer activities, court rulings in pending or future litigation may serve to narrow the scope of protection afforded us under these laws. In addition, laws governing these activities are unsettled in many international jurisdictions, or may prove difficult or impossible for us to comply with in some international jurisdictions. Also, notwithstanding the exculpatory language of these bodies of law, we may be embroiled in complaints and lawsuits which, even if ultimately resolved in our favor, add cost to our doing business and may divert management's time and attention. Finally, other existing bodies of law, including the criminal laws of various states, may be deemed to apply or new statutes or regulations may be adopted in the future, any of which could expose us to further liability and increase our costs of doing business.

We may face liability or become involved in disputes over registration of domain names and control over websites.

As a domain name registrar, we regularly become involved in disputes over registration of domain names. Most of these disputes arise as a result of a third party registering a domain name that is identical or similar to another party's trademark or the name of a living person. These disputes are typically resolved through the Uniform Domain-Name Dispute-Resolution Policy, or UDRP, ICANN's administrative process for domain name dispute resolution, or less frequently through litigation under the Anticybersquatting Consumer Protection Act, or ACPA, or under general theories of trademark infringement or dilution. The UDRP generally does not impose liability on registrars, and the ACPA provides that registrars may not be held liable for registering or maintaining a domain name absent a showing of bad faith intent to profit or reckless disregard of a court order by the registrars. However, we may face liability if we fail to comply in a timely manner with procedural requirements under these rules. In addition, these processes typically require at least limited involvement by us, and therefore increase our cost of doing business. The volume of domain name registration disputes may increase in the future as the overall number of registered domain names increases.

Domain name registrars also face potential tort law liability for their role in wrongful transfers of domain names. The safeguards and procedures we have adopted may not be successful in insulating us against liability from such claims in the future. In addition, we face potential liability for other forms of “domain name hijacking,” including misappropriation by third parties of our network of customer domain names and attempts by third parties to operate websites on these domain names or to extort the customer whose domain name and website were misappropriated. Furthermore, our risk of incurring liability for a security breach on a customer website would increase if the security breach were to occur following our sale to a customer of an SSL certificate that proved ineffectual in preventing it. Finally, we are exposed to potential liability as a result of our private domain name registration service, wherein we become the domain name registrant, on a proxy basis, on behalf of our customers. While we have a policy of providing the underlying Whois information and reserve the right to cancel privacy services on domain names giving rise to domain name disputes including when we receive reasonable evidence of an actionable harm, the safeguards we have in place may not be sufficient to avoid liability in the future, which could increase our costs of doing business.

We may experience unforeseen liabilities in connection with our acquisition of Internet domain names or arising out of third-party domain names included in our distribution network, which could negatively impact our financial results.

We have acquired and intend to continue to acquire in the future additional previously-owned Internet domain names. While we have a policy against acquiring domain names that infringe on third-party intellectual property rights, including trademarks or confusingly similar business names, in some cases, these acquired names may have trademark significance that is not readily apparent to us or is not identified by us in the bulk purchasing process. As a result we may face demands by third-party trademark owners asserting infringement or dilution of their rights and seeking transfer of acquired Internet domain names under the UDRP administered by ICANN or actions under the ACPA. Additionally, we display paid listings on third-party domain names and third-party websites that are part of our distribution network, which also could subject us to a wide variety of civil claims including intellectual property infringement.

We intend to review each claim or demand which may arise from time to time on a case-by-case basis with the assistance of counsel and we intend to transfer any rights acquired by us to any party that has demonstrated a valid prior right or claim. We cannot, however, guarantee that we will be able to resolve these disputes without litigation. The potential violation of third-party intellectual property rights and potential causes of action under consumer protection laws may subject us to unforeseen liabilities including injunctions and judgments for money damages.

Our failure to register, maintain, secure, transfer or renew the domain names that we process on behalf of our customers or to provide our other services to our customers without interruption could subject us to additional expenses, claims of loss or negative publicity that have a material adverse effect on our business.

Clerical errors and system and process failures made by us may result in inaccurate and incomplete information in our database of domain names and in our failure to properly register or to maintain, secure, transfer or renew the registration of domain names that we process on behalf of our customers. In addition, any errors of this type might result in the interruption of our other services. Our failure to properly register or to maintain, secure, transfer or renew the registration of our customers' domain names or to provide our other services without interruption, even if we are not at fault, might result in our incurring significant expenses and might subject us to claims of loss or to negative publicity, which could harm our business, revenue, financial condition and results of operations.

Governmental and regulatory policies or claims concerning the domain name registration system, and industry reactions to those policies or claims, may cause instability in the industry, disrupt our domain name registration business and negatively impact our business.

ICANN is a private sector, not for profit corporation formed in 1998 for the express purposes of overseeing a number of Internet related tasks previously performed directly on behalf of the U.S. government, including managing the domain name registration system. ICANN has been subject to strict scrutiny by the public and by the United States government. For example, in the United States, Congress has held hearings to evaluate ICANN's selection process for new top level domains. In addition, ICANN faces significant questions regarding its financial viability and efficacy as a private sector entity. ICANN may continue to evolve both its long term structure and mission to address perceived shortcomings such as a lack of accountability to the public and a failure to maintain a diverse representation of interests on its board of directors. We continue to face the risks that:

- the U.S. or any other government may reassess its decision to introduce competition into, or ICANN's role in overseeing, the domain name registration market;
- the Internet community or the U.S. Department of Commerce or U.S. Congress may refuse to recognize ICANN's authority or support its policies, which could create instability in the domain name registration system;
- some of ICANN's policies and practices, and the policies and practices adopted by registries and registrars, could be found to conflict with the laws of one or more jurisdictions;
- the terms of the Registrar Accreditation Agreement, under which we are accredited as a registrar, could change in ways that are disadvantageous to us or under certain circumstances could be terminated by ICANN preventing us from operating our Registrar service;
- ICANN and, under their registry agreements, VeriSign and other registries may impose increased fees received for each ICANN accredited registrar and/or domain name registration managed by those registries;

- international regulatory or governing bodies, such as the International Telecommunications Union or the European Union, may gain increased influence over the management and regulation of the domain name registration system, leading to increased regulation in areas such as taxation and privacy;

- ICANN or any registries may implement policy changes that would impact our ability to run our current business practices throughout the various stages of the lifecycle of a domain name; and

- foreign constituents may succeed in their efforts to have domain name registration removed from a U.S. based entity and placed in the hands of an international cooperative.

If any of these events occur, they could create instability in the domain name registration system. These events could also disrupt or suspend portions of our domain name registration solution, which would result in reduced revenue.

The relevant domain name registry and the ICANN regulatory body impose a charge upon each registrar for the administration of each domain name registration. If these fees increase, it would have a significant impact upon our operating results.

Each registry typically imposes a fee in association with the registration of each domain name. For example, VeriSign, the registry for .com, presently charges a $7.85 fee for each .com registration and ICANN currently charges a $0.18 fee for each .com domain name registered in the generic top level domains, or gTLDs, that fall within its purview. We have no control over these agencies and cannot predict when they may increase their respective fees. In terms of the extended registry agreement between ICANN and VeriSign that was approved by the U.S. Department of Commerce on November 30, 2012, VeriSign will continue as the exclusive registry for the .com gTLD through November 30, 2018. The terms of the extension set a maximum price, with certain exceptions, for registry services for each calendar year beginning January 1, 2013 up to the smaller of the preceding year's maximum price or the highest price charged during the preceding year, multiplied by 1.07; provided, however, that such increases shall only be permitted in four years of any six year term of the agreement. The increase in these fees either must be included in the prices we charge to our service providers, imposed as a surcharge or absorbed by us. If we absorb such cost increases or if surcharges act as a deterrent to registration, we may find that our profits are adversely impacted by these third-party fees.

As the number of available domain names with commercial value diminishes over time, our domain name registration revenue and our overall business could be adversely impacted.

As the number of domain registrations increases and the number of available domain names with commercial value diminishes over time, and if it is perceived that the more desirable domain names are generally unavailable, fewer Internet users might register domain names with us. If this occurs, it could have an adverse effect on our domain name registration revenue and our overall business.

Risks Relating to our Company

We have a history of operating losses and may not be able to operate profitably or sustain positive cash flow in future periods.

We were founded in 2006 and have a limited operating history. We had a net loss in every year from inception until the year ended December 31, 2012 when we generated net income. As of December 31, 2012, we had an accumulated deficit of approximately $64.6 million and we may incur net operating losses in the future. Moreover, our cash flows from operating activities in the future may not be sufficient to fund our desired level of investments in the production of content and the purchase of property and equipment, domain names and other intangible assets. Our business strategy contemplates making continued investments and expenditures in our content creation and distribution platform as well as the development and launch of new products and services. In addition, as a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. Our ability to generate net income in the future will depend in large part on our ability to generate and sustain substantially increased revenue levels, while continuing to control our expenses. We may incur significant losses in the future for a number of reasons, including those discussed in other risk factors and factors that we cannot foresee. Our inability to generate net income and sufficient positive cash flows would materially and adversely affect our business, revenue, financial condition and results of operations.

We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

Our revenue and operating results could vary significantly from quarter-to-quarter and year-to-year and may fail to match our past performance because of a variety of factors, many of which are outside of our control. In particular, our operating expenses are fixed and variable and, to the extent variable, less flexible to manage period-to-period, especially in the short-term. For example, our ability to manage our expenses in the near term period-to-period is affected by our sales and marketing expenses to refer traffic to or promote our owned and operated websites, generally a variable expense which can be managed based on operating performance in the near term. This expense has historically represented a relatively small percentage of our operating expenses. In addition, comparing our operating results on a period-to-period basis may not be meaningful. In addition to other risk factors discussed in this section, factors that may contribute to the variability of our quarterly and annual results include:

- lower than anticipated levels of traffic to our owned and operated websites and to our customers' websites;
- our ability to generate revenue from traffic to our owned and operated websites and to our network of customer websites;
- failure of our content to generate sufficient or expected revenue during its estimated useful life to recover its unamortized creation costs, which may result in increased amortization expenses associated with, among other things, a decrease in the estimated useful life of our content, an impairment charge associated with our existing content, or expensing future content acquisition costs as incurred;
- creation of content in the future that may have a shorter estimated useful life as compared to our current portfolio of content, or which we license exclusively to third parties for periods that are less than the estimated useful life of our existing content, which may result in, among other things, increased content amortization expenses or the expensing of future content acquisition costs as incurred;
- our ability to continue to create and develop content and content formats that attract users to our owned and operated websites and to our network of customer websites that distribute our content;
- our ability to expand our existing distribution network to include emerging and alternative channels, including complementary social media platforms such as Facebook, Google+ and Twitter, dedicated applications for mobile platforms such as the iPhone, Blackberry and Android operating systems, and new types of devices used to access the Internet such as tablet computers;
- changing consumption patterns of internet content to mobile devices such as smart-phones and tablets, which may generate lower advertising yields compared to historic advertising yields on desktop or laptop devices;
- changes in internet advertising purchasing patterns by advertisers from direct advertising sales to more automated advertising solutions;
- our ability to identify acquisition targets and successfully integrate acquired businesses into our operations;
- our ability to attract and retain sufficient qualified and experienced freelance creative professionals to generate content formats on a scale sufficient to grow our business, as we continue to evolve the formats of content that we produce;
- our ability to effectively manage our freelance creative professionals, direct advertising sales force, in-house personnel and operations;
- a reduction in the number of domain names under management or in the rate at which this number grows, due to slow growth or contraction in our markets, lower renewal rates or other factors;
- reductions in the percentage of our domain name registration customers who purchase additional services from us;
- timing of and revenue recognition for large sales transactions such as significant new contracts for branded advertising;
- the mix of services sold in a particular period between our Registrar and our Content & Media service offerings;

- changes in our pricing policies or those of our competitors, changes in domain name fees charged to us by Internet registries or the Internet Corporation for Assigned Names and Numbers, or ICANN, or other competitive pressures on our prices;
- our ability to identify, develop and successfully launch new products and services;
- the timing and success of new services and technology enhancements introduced by our competitors, which could impact both new customer growth and renewal rates;
- the entry of new competitors in our markets;
- our ability to keep our platform, domain name registration services and our owned and operated websites operational at a reasonable cost and without service interruptions;
- increased product development expenses relating to the development of new services;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our services, operations and infrastructure;
- changes in generally accepted accounting principles;
- our focus on long-term goals over short-term results;
- federal, state or foreign regulation affecting our business; and
- weakness or uncertainty in general economic or industry conditions.

It is possible that in one or more future quarters, due to any of the factors listed above, a combination of those factors or other reasons, our operating results may be below our expectations and the expectations of public market analysts and investors. In that event, the price of our shares of common stock could decline substantially.

Changes in our business model or external developments in our industry could negatively impact our operating margins.

Our operating margins may experience downward pressure as a result of increasing competition and increased expenditures for many aspects of our business, including expenses related to content creation. For example, historically, we have focused on the creation of shorter-form text articles or standard videos for our owned and operated websites, including "how to" articles for eHow. However, if we increase the number of longer-form or "feature" articles or premium videos or choose to create other forms of content formats, and in turn reduce our investment in the shorter-form types of content, our operating margins may suffer as these other forms of content may be more expensive to create and the corresponding return on investment, if any, could be reduced. In addition, we intend to enter into additional revenue sharing arrangements with our customers which could cause our operating margins to experience downward pressure if a greater percentage of our revenue comes from advertisements placed on our network of customer websites compared to advertisements placed on our owned and operated websites. Additionally, the percentage of advertising fees that we pay to our customers may increase, which would reduce the margin we earn on revenue generated from those customers.

Our historic revenue growth rate may not be sustainable.

Our revenue increased rapidly in each of the fiscal years ended December 31, 2008 through December 31, 2012. We may not be able to sustain our revenue growth rate in future periods and you should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. If our future growth fails to meet investor or analyst expectations, it could have a materially negative effect on our stock price. If our growth rate were to decline significantly or become negative, it would adversely affect our business, financial condition and results of operations.

If we do not effectively manage our growth, our operating performance will suffer and we may lose consumers, advertisers, customers and freelance creative professionals.

We have experienced rapid growth in our operations since our founding in 2006, and we may experience continued growth in our business, both through internal growth and potential acquisitions. For example, our employee headcount grew from approximately 500 to over 700 from December 31, 2009 to December 31, 2012. This overall growth has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure. In particular, continued growth may make it more difficult for us to accomplish the following:

- successfully scale our technology and infrastructure to support a larger business;
- continue to grow our platform at scale and distribute through our new and existing properties while successfully monetizing our content;
- maintain our standing with key advertisers as well as Internet search companies and our network of customer websites;
- maintain our customer service standards;
- develop and improve our operational, financial and management controls and maintain adequate reporting systems and procedures;
- acquire and integrate websites and other businesses;
- successfully expand our footprint in our existing areas of consumer interest and enter new areas of consumer interest; and
- respond effectively to competition and potential negative effects of competition on profit margins.

In addition, our personnel, systems, procedures and controls may be inadequate to support our current and future operations. The improvements required to manage our growth will require us to make significant expenditures, expand, train and manage our employee base and allocate valuable management resources. If we fail to effectively manage our growth, our operating performance will suffer and we may lose our advertisers, customers and key personnel.

If we do not continue to innovate and provide products and services that are useful to our customers, we may not remain competitive, and our revenue and operating results could suffer.

Our success depends on our ability to innovate and provide products and services useful to our customers in both our Content & Media and Registrar service offerings. Our competitors are constantly developing innovations in content creation and distribution as well as in domain name registration and related services, such as web hosting, email and website creation solutions. As a result, we must continue to invest significant resources in product development in order to maintain and enhance our existing products and services and introduce new products and services that deliver a sufficient return on investment and that our customers can easily and effectively use. If we are unable to provide quality products and services, we may lose consumers, advertisers, customers and freelance creative professionals, and our revenue and operating results would suffer. Our operating results would also suffer if our innovations are not responsive to the needs of our customers and our advertisers, are not appropriately timed with market opportunities or are not effectively brought to market.

Our industry is undergoing rapid change, and our business model is also evolving, which makes it difficult to evaluate our current business and future prospects.

We derive a significant portion of our revenue from the sale of advertising on the Internet, which is an evolving industry that has undergone rapid and dramatic changes in industry standards, consumer and customer demands and advertising trends. In addition, our business model is also evolving and is distinct from many other companies in our industry, and it may not lead to long-term growth or success. For example, the ways in which online advertisements are delivered are rapidly changing and an increasing percentage of advertisements are being delivered through social media websites and platforms as opposed to traditional portals or content websites. If advertisers determine that their yields on such social media sites significantly outstrip their return on other types of websites, such as our owned and operated websites, our business and operating results could be adversely impacted. We need to continually evolve our services and the way we deliver them in order to keep up with such changes to remain relevant to our customers, and we may not be able to do so quickly, cost-effectively or at all.

We have made and may make additional acquisitions that could entail significant execution, integration and operational risks.

We have made numerous acquisitions in the past, including one in 2012 and four in 2011, and our future growth may depend, in part, on acquisitions of complementary websites, businesses, solutions or technologies rather than internal development. We may continue to make acquisitions in the future to increase the scope of our business domestically and internationally. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions. If we are unable to identify suitable future acquisition opportunities, reach agreement with such parties or obtain the financing necessary to make such acquisitions, we could lose market share to competitors who are able to make such acquisitions. This loss of market share could negatively impact our business, revenue and future growth.

Furthermore, even if we successfully complete an acquisition, we may not be able to successfully assimilate and integrate the websites, business, technologies, solutions, personnel or operations of the company that we acquired, particularly if key personnel of an acquired company decide not to work for us. In addition, we may incur indebtedness to complete an acquisition, which would increase our costs and impose operational limitations, or issue equity securities, which would dilute our stockholders' ownership and could adversely affect the price of our common stock. We may also unknowingly inherit liabilities from previous or future acquisitions that arise after the acquisition and are not adequately covered by indemnities.

We may have difficulty scaling and adapting our existing technology and network infrastructure to accommodate increased traffic and technology advances or changing business requirements, which could lead to the loss of consumers, advertisers, customers and freelance creative professionals, and cause us to incur expenses to make architectural changes.

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computing power we will need. In the future, we may spend substantial amounts to purchase or lease data centers and equipment, upgrade our technology and network infrastructure to handle increased traffic on our owned and operated websites and roll out new products and services. This expansion could be expensive and complex and could result in inefficiencies or operational failures. If we do not implement this expansion successfully, or if we experience inefficiencies and operational failures during its implementation, the quality of our products and services and our users' experience could decline. This could damage our reputation and lead us to lose current and potential consumers, advertisers, customers and freelance creative professionals. The costs associated with these adjustments to our architecture could harm our operating results. Cost increases, loss of traffic or failure to accommodate new technologies or changing business requirements could harm our business, revenue and financial condition.

If the security measures for our systems are breached, or if our products or services are subject to attacks that degrade or deny the ability of administrators, developers, users and customers to maintain or access them, our systems, products and services may be perceived as not being secure. If any such events occur, users, customers, advertisers and publishers may curtail or stop using our products and services, and we may incur significant legal and financial exposure, all of which could have a negative impact on our business, financial condition and results of operations.

Some of our systems, products and services involve the storage and transmission of information regarding our users, customers, and our advertising and publishing partners, and security breaches could expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to this information. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our systems and the stored data therein. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our systems, products and services that could potentially have an adverse effect on our business, financial condition and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users, customers, advertisers or publishers.

If we do not adequately protect our intellectual property rights, our competitive position and business may suffer.

Our intellectual property, consisting of trade secrets, trademarks, copyrights and patents, is, in the aggregate, important to our business. We rely on a combination of trade secret, trademark, copyright and patent laws in the United States and other jurisdictions together with confidentiality agreements and technical measures to protect our proprietary rights. We rely more heavily on trade secret protection than patent protection. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. Effective trade secret, copyright, trademark and patent protection may not be available in all countries where we currently operate or in which we may operate in the future. In addition, because of the relatively high cost we would experience in registering all of our copyrights with the United States Copyright Office, we generally do not register the copyrights associated with our content. We cannot guarantee that:

- our intellectual property rights will provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;
- any of the patents, trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned;
- competitors will not design around our protected systems and technology; or
- we will not lose the ability to assert our intellectual property rights against others.

Policing unauthorized use of our proprietary rights can be difficult and costly. In addition, it may be necessary to enforce or protect our intellectual property rights through litigation or to defend litigation brought against us, which could result in substantial costs and diversion of resources and management attention and could adversely affect our business, even if we are successful on the merits.

We rely on technology infrastructure and a failure to update or maintain this technology infrastructure could adversely affect our business.

Significant portions of our content, products and services are dependent on technology infrastructure that was developed over multiple years. Updating and replacing our technology infrastructure may be challenging to implement and manage, may take time to test and deploy, may cause us to incur substantial costs and may cause us to suffer data loss or delays or interruptions in service. For example, we have suffered a number of server outages at our data center facilities, which resulted from certain failures that triggered data center wide outages and disrupted critical technology and infrastructure service capabilities. These events impacted service to some of our significant media properties, including eHow, as well our proprietary online content production studio, and eNom customers. As a result of these data center outages, we have recently developed initiatives to create automatic backup capacity at an alternate facility for our top revenue generating services to address similar scenarios in the future. However, there can be no assurance that our efforts to develop sufficient backup and redundant services will be successful or that we can prevent similar outages in the future. Delays or interruptions in our service may cause our consumers, advertisers, customers and freelance creative professionals to become dissatisfied with our offerings and could adversely affect our business. Failure to update our technology infrastructure as new technologies become available may also put us in a weaker position relative to a number of our key competitors. Competitors with newer technology infrastructure may have greater flexibility and be in a position to respond more quickly than us to new opportunities, which may impact our competitive position in certain markets and adversely affect our business.

We are currently expanding and improving our information technology systems. If these implementations are not successful, our business and operations could be disrupted and our operating results could suffer.

In 2010, we deployed the first phase of our enterprise reporting system, Oracle Applications ERP and Platform, to assist the management of our financial data and reporting, and to automate certain business wide processes and internal controls. Since then, we have started to implement additional build-outs, customizations and/or applications associated with this system that require significant management time, support and cost. Moreover, there are inherent risks associated with developing, improving and expanding information systems. We cannot be sure that the expansion of any of our systems, including our Oracle system, will be fully or effectively implemented on a timely basis, if at all. If we do not successfully implement informational systems on a timely basis or at all, our operations may be disrupted and or our operating results could suffer. In addition, any new information system deployments may not operate as we expect them to, and we may be required to expend significant resources to correct problems or find alternative sources for performing these functions.

The interruption or failure of our information technology and communications systems, or those of third parties that we rely upon, may adversely affect our business, operating results and financial condition.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems, or those of third parties that we rely upon (e.g. co-location providers for data servers, storage devices, and network access) could result in interruptions in our service, which could reduce our revenue and profits, and damage our brand. Our systems are also vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses or other attempts to harm our systems. We, and in particular our Registrar service, have experienced an increasing number of computer distributed denial of service attacks which have forced us to shut down certain of our websites, including eNom.com. We have implemented certain defenses against these attacks, but we may continue to be subject to such attacks, and future denial of service attacks may cause all or portions of our websites to become unavailable. In addition, some of our data centers are located in areas with a high risk of major earthquakes. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the operators of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning is currently underdeveloped and does not account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at our data centers could result in lengthy interruptions in our service.

Furthermore, third‑party service providers may experience an interruption in operations or cease operations for any reason. If we are unable to agree on satisfactory terms for continued data center hosting relationships, we would be forced to enter into a relationship with other service providers or assume hosting responsibilities ourselves. If we are forced to switch hosting facilities, we may not be successful in finding an alternative service provider on acceptable terms or in hosting the computer servers ourselves. We may also be limited in our remedies against these providers in the event of a failure of service. We also rely on third‑party providers for components of our technology platform, such as hardware and software providers. A failure or limitation of service or available capacity by any of these third‑party providers could adversely affect our business, revenue, financial condition and results of operations.

Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could diminish the value of our services and cause us to lose customers and revenue.

When a user visits our websites or certain pages of our customers' websites, we use technologies, including "cookies," to collect information related to the user, such as the user's Internet Protocol, or IP, address, demographic information, and history of the user's interactions with content or advertisements previously delivered by us. The information that we collect about users helps us deliver appropriate content and targeted advertising to the user. A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from and about our users. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. We post privacy policies on all of our owned and operated websites which set forth our policies and practices related to the collection and use of consumer data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with industry standards or laws or regulations could result in a loss of consumer confidence in us, or result in actions against us by governmental entities or others, all of which could potentially cause us to lose consumers and revenues.

In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. Recent developments related to "instant personalization" and similar technologies potentially allow us and other publishers access to even broader and more detailed information about users. These developments have led to greater scrutiny of industry data collection practices by regulators and privacy advocates. New laws may be enacted, new industry self-regulation may be promulgated, or existing laws may be amended or re-interpreted, in a manner which limits our ability to analyze user data. If our access to user data is limited through legislation or any industry development, we may be unable to provide effective technologies and services to customers and we may lose customers and revenue.

We depend on key personnel to operate our business, and if we are unable to retain our current personnel or hire additional personnel, our ability to develop and successfully market our business could be harmed.

We believe that our future success is highly dependent on the contributions of our executive officers, in particular the contributions of our Chairman and Chief Executive Officer, Richard M. Rosenblatt, as well as our ability to attract and retain highly skilled managerial, sales, technical, engineering and finance personnel. We do not maintain "key person" life insurance policies for our Chief Executive Officer or any of our executive officers. Qualified individuals, including engineers, are in high demand, and we may incur significant costs to attract and retain them. All of our officers and other employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we are unable to attract and retain our executive officers and key employees, our business, operating results and financial condition will be harmed.

Volatility or lack of performance in our stock price may also affect our ability to attract employees and retain our key employees. Our executive officers have become, or will soon become, vested in a substantial amount of stock or stock options. Employees may be more likely to leave us if the shares they own have significantly appreciated in value relative to the original purchase prices of the shares or if the exercise prices of the stock options that they hold are significantly above the market price of our common stock. In addition, employees may be more inclined to leave us if the exercise prices on their stock options that they hold are significantly below the market price of our common stock, or if the perceived value of restricted stock awards decline.

Impairment in the carrying value of goodwill or long-lived assets, including our media content, could negatively impact our consolidated results of operations and net worth.

Goodwill represents the excess of cost of an acquired entity over the fair value of the acquired net assets. Goodwill is not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators are present. In general, long-lived assets, including our media content, are only reviewed for impairment if impairment indicators are present. In assessing goodwill and long-lived assets for impairment, we make significant estimates and assumptions, including estimates and assumptions about market penetration, anticipated growth rates and risk-adjusted discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and industry data. Some of the estimates and assumptions used by management have a high degree of subjectivity and require significant judgment on the part of management. Changes in estimates and assumptions in the context of our impairment testing may have a material impact on us, and any potential impairment charges could substantially affect our financial results in the periods of such charges.

New tax treatment of companies engaged in Internet commerce may adversely affect the commercial use of our marketing services and our financial results.

Due to the global nature of the Internet, it is possible that, although our services and the Internet transmissions related to them typically originate in California, Texas, Illinois, Virginia and the Netherlands, governments of other states or foreign countries might attempt to regulate our transmissions or levy sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in Internet commerce. New or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and, in particular, sales taxes, would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling goods and services over the Internet. New taxes could also create significant increases in internal costs necessary to capture data, and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations.

Third parties may sue us for intellectual property infringement or misappropriation which, if successful, could require us to pay significant damages or curtail our offerings.

We cannot be certain that our internally-developed or acquired systems and technologies do not and will not infringe the intellectual property rights of others. In addition, we license content, software and other intellectual property rights from third parties and may be subject to claims of infringement or misappropriation if such parties do not possess the necessary intellectual property rights to the products or services they license to us. We have in the past and may in the future be subject to legal proceedings and claims that we have infringed the patent or other intellectual property rights of a third party. These claims sometimes involve patent holding companies or other patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence. In addition, third parties may in the future assert intellectual property infringement claims against our customers, which we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property-related infringement or misappropriation claims, whether or not meritorious, could result in costly litigation and could divert management resources and attention. Moreover, should we be found liable for infringement or misappropriation, we may be required to enter into licensing agreements, if available on acceptable terms or at all, pay substantial damages or limit or curtail our systems and technologies. Also, any successful lawsuit against us could subject us to the invalidation of our proprietary rights. Moreover, we may need to redesign some of our systems and technologies to avoid future infringement liability. Any of the foregoing could prevent us from competing effectively and increase our costs.

Certain U.S. and foreign laws could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that may subject us to claims or other remedies. Our failure to comply with applicable laws may subject us to additional liabilities, which could adversely affect our business, financial condition and results of operations. Laws and regulations that are particularly relevant to our business address:

- privacy;
- freedom of expression;
- information security;
- pricing, fees and taxes;
- content and the distribution of content, including liability for user reliance on such content;
- intellectual property rights, including secondary liability for infringement by others;
- taxation;
- domain name registration; and
- online advertising and marketing, including email marketing and unsolicited commercial email.

Many applicable laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues of the Internet. Moreover, the applicability and scope of the laws that do address the Internet remain uncertain. For example, the laws relating to the liability of providers of online services are evolving. Claims have been either threatened or filed against us under both U.S. and foreign laws for defamation, copyright infringement, patent infringement, privacy violations, cybersquatting and trademark infringement. In the future, claims may also be alleged against us based on tort claims and other theories based on our content, products and services or content generated by our users.

We receive, process and store large amounts of personal data of users on our owned and operated websites and from our freelance creative professionals. Our privacy and data security policies govern the collection, use, sharing, disclosure and protection of this data. The storing, sharing, use, disclosure and protection of personal information and user data are subject to federal, state and international privacy laws, the purpose of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. If requirements regarding the manner in which certain personal information and other user data are processed and stored change significantly, our business may be adversely affected, impacting our financial condition and results of operations. In addition, we may be exposed to potential liabilities as a result of differing views on the level of privacy required for consumer and other user data we collect. We may also need to expend significant resources to protect against security breaches, including encrypting personal information, or remedy breaches after they occur, including notifying each person whose personal data may have been compromised. Our failure or the failure of various third-party vendors and service providers to comply with applicable privacy policies or applicable laws and regulations or any compromise of security that results in the unauthorized release of personal information or other user data could adversely affect our business, revenue, financial condition and results of operations.

Our business operations in countries outside the United States are subject to a number of United States federal laws and regulations, including restrictions imposed by the Foreign Corrupt Practices Act, or FCPA, as well as trade sanctions administered by the Office of Foreign Assets Control, or OFAC, and the Commerce Department. The FCPA is intended to prohibit bribery of foreign officials or parties and requires public companies in the United States to keep books and records that accurately and fairly reflect those companies' transactions. OFAC and the Commerce Department administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals.

If we fail to comply with these laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, incarceration of our employees or restrictions on our operations, which could increase our costs of operations, reduce our profits or cause us to forgo opportunities that would otherwise support our growth.

A reclassification of our freelance creative professionals from independent contractors to employees by tax authorities could require us to pay retroactive taxes and penalties and significantly increase our cost of operations.

We contract with freelance creative professionals as independent contractors to create the substantial majority of the content for our owned and operated websites and for our network of customer websites. Because we consider our freelance creative professionals with whom we contract to be independent contractors, as opposed to employees, we do not withhold federal or state income or other employment related taxes, make federal or state unemployment tax or Federal Insurance Contributions Act payments, or provide workers' compensation insurance with respect to such freelance creative professionals. Our contracts with our independent contractor freelance creative professionals obligate these freelance creative professionals to pay these taxes. The classification of freelance creative professionals as independent contractors depends on the facts and circumstances of the relationship. In the event of a determination by federal or state taxing authorities that the freelance creative professionals engaged as independent contractors are employees, we may be adversely affected and subject to retroactive taxes and penalties. In addition, if it was determined that our content creators were employees, the costs associated with content creation would increase significantly and our financial results would be adversely affected.

We are subject to risks related to credit card payments we accept. If we fail to be in compliance with applicable credit card rules and regulations, we may incur additional fees, fines and ultimately the revocation of the right to accept credit card payments, which would have a material adverse effect on our business, financial condition or results of operations.

Many of the customers of our Content & Media and Registrar service offerings pay amounts owed to us using a credit card or debit card. For credit and debit card payments, we pay interchange and other fees, which may increase over time and raise our operating expenses and adversely affect our net income. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. We believe we are compliant in all material respects with the Payment Card Industry Data Security Standard, which incorporates Visa's Cardholder Information Security Program and MasterCard's Site Data Protection standard. However, there is no guarantee that we will maintain such compliance or that compliance will prevent illegal or improper use of our payment system. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers. A failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and could have a material adverse effect on our business, revenue, financial condition and results of operations.

Our revolving credit facility with a syndicate of commercial banks contains financial and other restrictive covenants which, if breached, could result in the acceleration of any outstanding indebtedness we may have under the facility.

Our revolving credit facility with a syndicate of commercial banks contains financial covenants that require, among other things, that we maintain a minimum fixed charge coverage ratio, a maximum net senior leverage ratio and a maximum net total leverage ratio. In addition, our revolving credit facility contains covenants restricting our ability to, among other things:

- incur additional debt or incur or permit to exist certain liens;
- pay dividends or make other distributions or payments on capital stock;
- make investments and acquisitions;
- enter into transactions with affiliates; and
- transfer or sell our assets.

These covenants could adversely affect our ability to finance our future operations or capital needs or to pursue available business opportunities, including acquisitions. A breach of any of these covenants could result in a default and acceleration of our indebtedness. Furthermore, if the syndicate of commercial banks is unwilling to waive certain covenants, we may be forced to amend our revolving or replace credit facility on terms less favorable than current terms or enter into new financing arrangements. As of December 31, 2012, we had no indebtedness outstanding under this facility, but had outstanding standby letters of credit of approximately $10 million.

Risks Relating to Owning Our Common Stock

An active, liquid and orderly market for our common stock may not be sustained, and the trading price of our common stock is likely to be volatile.

An active trading market for our common stock may not be sustained, which could depress the market price of our common stock. The trading price of our common stock has been, and is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. For example, since shares of our common stock were sold in our initial public offering in January 2011 at a price of $17.00 per share, our closing stock price has ranged from $5.62 to $24.57 through February 27, 2013. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this Annual Report on Form 10-K, these factors include:

- our operating performance and the operating performance of similar companies;
- the overall performance of the equity markets;
- the number of shares of our common stock publicly owned and available for trading;
- threatened or actual litigation;
- changes in laws or regulations relating to our solutions;
- changes in methodologies or algorithms used by search engines and their impact on search referral traffic;
- any major change in our board of directors or management;
- publication of research reports about us or our industry or changes in recommendations or withdrawal of research coverage by securities analysts;
- publication of third-party reports that inaccurately assess the performance of our business or certain operating metrics such as search referral traffic, the ranking of our content in search engine results or page view trends;
- large volumes of sales of our shares of common stock by existing stockholders; and
- general political and economic conditions.

In addition, the stock market in general, and the market for Internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition. In addition, the recent distress in the financial markets has also resulted in extreme volatility in security prices.

The large number of shares eligible for public sale or subject to rights requiring us to register them for public sale could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, and the perception that these sales could occur may also depress the market price of our common stock. As of February 27, 2013, we had 86,764,090 shares of common stock outstanding.

Certain stockholders owning a majority of our outstanding shares are party to a stockholders agreement that entitles them to require us to register shares of our common stock owned by them for public sale in the United States, subject to the restrictions of Rule 144. In addition, certain stockholders, including investors in our preferred stock that converted into common stock as well as current and former employees, are eligible to resell shares of common stock under Rule 144 and Rule 701 without registering such stock with the SEC.

In addition, as of December 31, 2012 we have registered approximately 44 million shares reserved for future issuance under our equity compensation plans and agreements. Subject to the satisfaction of applicable exercise periods, vesting requirements and, in certain cases, performance conditions, the shares of common stock issued upon exercise of outstanding options, vesting of future awards or pursuant to purchases under our employee stock purchase plan will be available for immediate resale in the United States in the open market.

Sales of our common stock as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause our stock price to fall and make it more difficult for shareholders to sell shares of our common stock.

We also have previously and may in the future issue shares of our common stock from time to time as consideration for acquisitions and investments. If any such acquisition or investment is significant, the number of shares that we may issue may in turn be significant. We currently have an effective shelf registration statement on file with the SEC which we may use to issue debt or equity securities with an aggregate offering price not to exceed $100 million and under which certain selling stockholders may offer and sell up to 14 million shares of our common stock.

Our previously announced stock repurchase program may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock.

We previously announced a stock repurchase program approved by our board of directors whereby we are authorized to repurchase shares of our common stock. Such purchases may be limited, suspended, or terminated at any time without prior notice. There can be no assurance that we will buy additional shares of our common stock under our stock repurchase program or that any future repurchases will have a positive impact on the trading price of our common stock or earnings per share. Important factors that could cause us to limit, suspend or terminate our stock repurchase program include, among others, unfavorable market conditions, the trading price of our common stock, the nature of other investment or strategic opportunities presented to us from time to time, the rate of dilution of our equity compensation programs and the availability of adequate funds, our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program. If we limit, suspend or terminate our stock repurchase program, our stock price may be negatively affected.

As a public company, we are subject to compliance initiatives that will require substantial time from our management and result in significantly increased costs that may adversely affect our operating results and financial condition.

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and other rules implemented by the SEC and the New York Stock Exchange, impose various requirements on public companies, including requiring changes in corporate governance practices. These and proposed corporate governance laws and regulations under consideration may further increase our compliance costs. If compliance with these various legal and regulatory requirements diverts our management's attention from other business concerns, it could have a material adverse effect on our business, financial condition and results of operations. We also expect that these laws and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage than used to be available. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors, on committees of our board of directors, or as executive officers.

We are required to make an assessment of the effectiveness of our internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Further, our independent registered public accounting firm was engaged to express an opinion on the effectiveness of our internal controls over financial reporting for our financial year ending December 31, 2012, and we will be required to obtain such an opinion for each subsequent fiscal year thereafter. Section 404 requires us to perform system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting for each fiscal year. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. If we are unable to comply with the requirements of Section 404, management may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could result in a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, if we fail to maintain effective controls and procedures, we may be unable to provide the required financial information in a timely and reliable manner or otherwise comply with the standards applicable to us as a public company. Any failure by us to provide the required financial information in a timely reliable manner could materially and adversely impact our financial condition and the trading price of our securities. In addition, we may incur additional expenses and commitment of management's time in connection with further assessments of our compliance with the requirements of Section 404, which could materially increase our operating expenses and adversely impact our operating results.

If securities or industry analysts publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

We do not anticipate paying cash dividends, and accordingly, stockholders must rely on stock appreciation for any return on their investment.

The terms of our credit agreement currently prohibit us from paying cash dividends on our common stock. In addition, we do not anticipate paying cash dividends in the future. As a result, only appreciation of the price of our common stock, which may never occur, will provide a return to stockholders. Investors seeking cash dividends should not invest in our common stock.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors, including, among other things:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, the Chief Executive Officer, the president (in absence of a Chief Executive Officer) or our board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;

- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our amended and restated bylaws, which may inhibit the ability of an acquiror from amending our certificate of incorporation or bylaws to facilitate a hostile acquisition;

- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent a hostile acquisition and inhibit the ability of an acquiror from amending the bylaws to facilitate a hostile acquisition; and

- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, our board of directors has approved the transaction.

Risks Relating to the Proposed Business Separation

The proposed separation of our business into two distinct publicly traded companies may not be completed on the terms or timeline currently contemplated, if at all.

In February 2013, we announced our intention to pursue the separation of our business into two distinct publicly traded companies (the "Proposed Business Separation"). The Proposed Business Separation could be delayed or negatively impacted by unanticipated developments, including, without limitation, the incurrence of additional expenses related to completing the Proposed Business Separation, delays in filing and effectiveness of appropriate filings with the SEC, obtaining favorable tax rulings and/or opinions regarding the tax-free nature of the transaction, receipt of regulatory approvals, and completing further due diligence as appropriate, and changes in market conditions. In addition, consummation of the Proposed Business Separation will require final approval from our board of directors. Therefore, we cannot assure that we will be able to complete the Proposed Business Separation on the terms or on the timeline that we announced, if at all.

The Proposed Business Separation may require significant time and attention of our management, may not achieve the intended results, and may present difficulties that could have an adverse effect on us.

In order to position ourselves for the Proposed Business Separation, we are actively considering and pursuing strategic, structural and process actions and initiatives for both businesses. These actions could lead to disruption of our ongoing operations, loss of, or our inability to recruit, key personnel needed to operate and grow our businesses and complete the Proposed Business Separation, weakening of our internal standards, controls or procedures, and impairment of our relationship with key customers and suppliers, among other things. Execution of the Proposed Business Separation will require significant time and attention from management, which may distract management from the operation of our business and the execution of our other initiatives. Our employees may also be distracted due to uncertainty about their future roles with us pending the completion of the Proposed Business Separation. Although the Proposed Business Separation is intended to be a tax-free pro rata distribution to our stockholders, these types of transactions are complex and there are no assurances that there will not be adverse tax liabilities in connection therewith. Further, if the Proposed Business Separation is completed, the transaction may not achieve the intended results. Any such difficulties could have a material adverse effect on our business, financial condition and results of operations.

If completed, the Proposed Business Separation will leave two smaller, less diversified companies. Once separated, these distinct companies may be more vulnerable to changing market conditions, which could materially and adversely affect their respective business, financial condition and results of operations. In addition, the diversification of revenues, costs, and cash flows will diminish. As a result, it is possible that our results of operations, cash flows, working capital and financing requirements may be subject to increased volatility.

The value of our common stock following completion of the Proposed Business Separation may not equal or exceed the value of our common stock prior to the completion of the Proposed Business Separation.

There can be no assurance that the aggregate trading price of the common stock of the two public companies that would result from the Proposed Business Separation, as may be adjusted for any changes in our capitalization structure, will be equal to or greater than the trading price of our common stock prior to the Proposed Business Separation. Until the market has fully evaluated the two companies separately, the price at which the common stock of the two companies trades may fluctuate significantly. Further, shares of our common stock today will represent an investment in two smaller separate public companies once the Proposed Business Separation is completed. These changes may not meet some stockholders' investment strategies, which could cause investors to sell their shares of our common stock. Excessive selling could cause the relative market price of our common stock to decrease in advance of or following completion of the Proposed Business Separation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We do not own any real estate. We currently occupy an aggregate of 65,000 square feet in three locations in Santa Monica, California for our corporate headquarters and that also services a significant portion of Content & Media service offering under leases expiring in April and July 2013. We have entered into new lease agreements for approximately 70,000 square feet in two locations in Santa Monica, California to provide our new corporate headquarters and to house a significant portion of our Content & Media headcount. We also lease an approximately 34,000 square-foot facility for the headquarters of our Registrar service offering in Kirkland, Washington and an approximately 27,000 square-foot facility primarily for our Content & Media service offering in Austin, Texas. We also lease sales offices, support facilities and data centers in other locations in North America, South America and Europe. We believe our current and planned data centers and offices will be adequate for the foreseeable future.

Item 3. Legal Proceedings

In April 2011, the Company and eleven other defendants were named in a patent infringement lawsuit filed in the U.S. District Court, Eastern District of Texas. The plaintiff filed and served a complaint making several claims related to a method for displaying advertising on the Internet. In May 2011, the Company filed its response to the complaint, denying all liability. The Company is currently engaged in settlement discussions with the plaintiff to resolve this matter. Until this matter is resolved, the Company intends to vigorously defend its position in this matter.

In addition, from time to time Demand Media is a party to other various litigation matters incidental to the conduct of its business. There is no pending or threatened legal proceeding to which Demand Media is a party that, in our belief, is likely to have a material adverse effect on Demand Media's future financial results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock began trading publicly on the New York Stock Exchange under the symbol "DMD" on January 26, 2011. Prior to that time, there was no public market for our common stock. The following table sets forth, for the period indicated and on a per-share basis, the high and low intra-day sale prices of our common stock as reported by the New York Stock Exchange.

	High	Low
Fiscal Year end December 31, 2012		
First Quarter	$7.96	$5.85
Second Quarter	$11.63	$6.47
Third Quarter	$12.50	$9.59
Fourth Quarter	$11.14	$7.93

	High	Low
Fiscal Year end December 31, 2011		
First Quarter (beginning January 26, 2011)	$26.46	$18.20
Second Quarter	$27.38	$12.56
Third Quarter	$13.89	$7.12
Fourth Quarter	$8.19	$5.24

Holders of Record

As of February 27, 2013, our common stock was held by approximately 67 stockholders of record and there were 86,764,090 shares of common stock outstanding. Stockholders of record does not include a substantially greater number of "street name" holders or beneficial holders of our common stock whose shares are held of record by banks, brokers and other financial institutions.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently do not anticipate paying any cash dividends in the foreseeable future. Instead, we anticipate that all of our earnings on our common stock will be used to provide working capital, to support our operations and to finance the growth and development of our business. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, our credit agreement with a syndicate of commercial banks currently prohibits our payment of dividends.

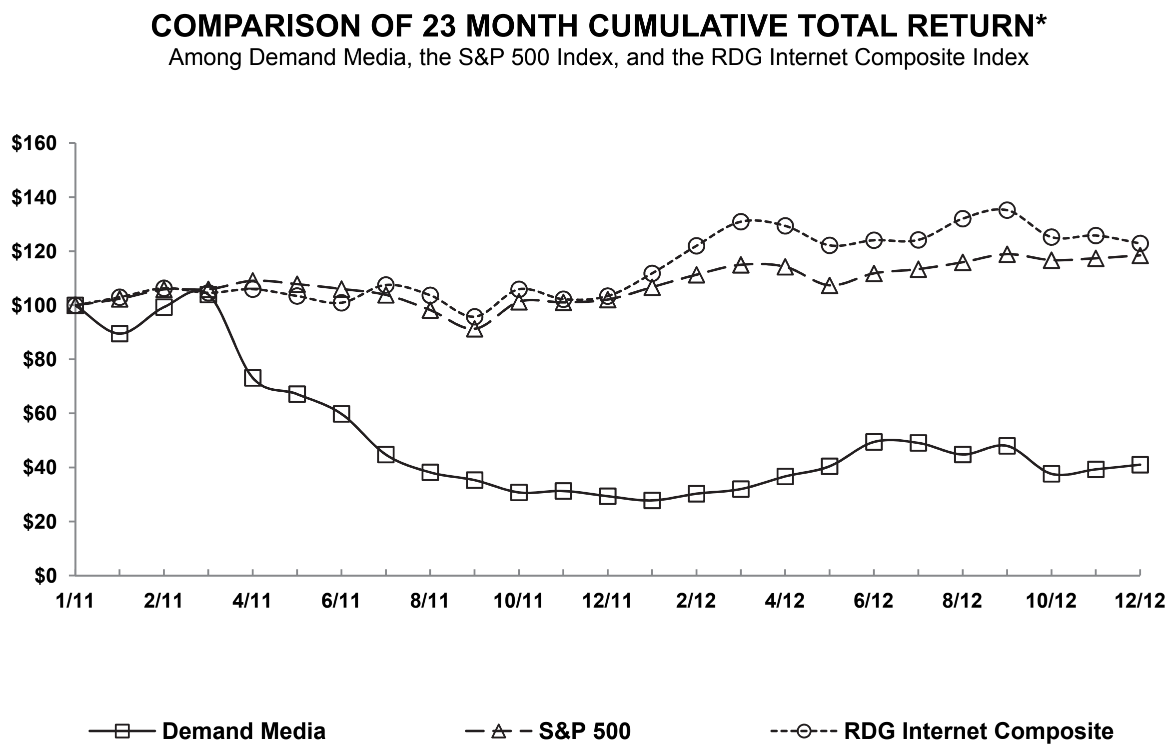
Equity Plan Information

Our equity plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report on Form 10-K.

Performance Graph

The following performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference into any filing of Demand Media under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The graph compares the cumulative total return of our common stock for the period starting on January 26, 2011, the date of our initial public offering, and ending on December 31, 2012, with that of the S&P 500 Index and RDG Internet Composite Index over the same period. The graph assumes that the value of the investment was $100 on January 26, 2011, and that all dividends and other distributions were reinvested. Such returns are based on historical results and are not intended to suggest future performance.



Use of Proceeds from Registered Securities

On January 25, 2011, registration statements on Form S-1 (File No. 333-168612 and File No. 333-171868) relating to our initial public offering of our common stock were declared effective by the SEC. An aggregate of 10,235,000 shares of our common stock were registered under the registration statements, of which 4,500,000 shares were sold by us, 4,400,000 shares were sold by the selling stockholders identified in the registration statements and 1,335,000 shares were sold by the selling stockholders and us in connection with the underwriters' exercise of their option to purchase additional shares, at an initial public offering price of $17.00 per share. The aggregate offering price for the shares registered and sold by us was approximately $88.0 million and the aggregate offering price for the shares registered and sold by the selling stockholders was approximately $86.0 million. The initial public offering closed on January 31, 2011 and, as a result, we received net proceeds of approximately $81.8 million, after deducting the underwriting discount but before deducting offering expenses and the selling stockholders received net proceeds of approximately $80.0 million, after deducting the underwriting discount of approximately $6.0 million. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates.

The net offering proceeds have been invested in cash and cash equivalents. We have used the net offering proceeds for investments in media content, applications for new gTLDs, international expansion efforts, working capital, product development, sales and marketing activities, general and administrative matters, capital expenditures and to fund acquisitions.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following provides information regarding our repurchase of our common stock during the quarter ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2012	-	-	-	$ [-]
November 1 - November 30, 2012	371,922	8.46	371,922	[-]
December 1 - December 31, 2012	200,440	8.81	200,440	[-]
Total	572,362	8.58	572,362	[-]

As disclosed in a current report on Form 8-K filed on February 16, 2012, our board of directors increased our previously approved stock repurchase program to authorize the repurchase of up to $50.0 million of our common stock as share price, market conditions and other factors warrant. Under the stock repurchase program, we have cumulatively repurchased a total of approximately 3.4 million shares at a total cost of $26.0 million through December 31, 2012. The stock repurchase program does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. See “Liquidity and Capital Resources” in Part II, Item 7 of this report on Form 10-K for further discussion of our share repurchases.

Our revolving credit facility limits our ability to make cash distributions with respect to our equity interests, such as redemptions, cash dividends and share repurchases, based on a defined leverage ratio. See "Liquidity and Capital Resources" in Part II, Item 7 of this report on Form 10-K for further discussion of our long-term debt.

Item 6. Selected Financial Data

The consolidated statements of operations data for the years ended December 31, 2010, 2011 and 2012, as well as the consolidated balance sheet data as of December 31, 2011 and 2012, are derived from our audited consolidated financial statements that are included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the years ended December 31, 2008 and 2009 as well as the consolidated balance sheet data as of December 31, 2008 and 2009 are derived from audited consolidated financial statements not included in this Annual Report on Form 10-K. The historical results presented below are not necessarily indicative of financial results to be achieved in future periods.

The following selected consolidated financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
	2008 (2)	2009	2010	2011(2)	2012(2)
Consolidated Statements of Operations:	(In thousands except per share amounts)				
Revenue	$ 170,250	$ 198,452	$ 252,936	$ 324,866	$ 380,578
Operating expenses					
Service costs (exclusive of amortization of intangible assets)	98,184	114,536	131,332	155,830	181,018
Sales and marketing	15,310	20,044	24,424	37,394	46,501
Product development	14,252	21,657	26,538	38,146	40,708
General and administrative	28,070	28,479	37,371	59,451	63,025
Amortization of intangible assets	33,204	32,152	33,750	47,174	40,676
Total operating expenses	189,020	216,868	253,415	337,995	371,928
Income (loss) from operations	(18,770)	(18,416)	(479)	(13,129)	8,650
Other income (expense)					
Interest income	1,636	494	25	56	42
Interest expense	(2,131)	(1,759)	(688)	(861)	(622)
Other income (expense), net	(250)	(19)	(286)	(413)	(111)
Total other income (expense)	(745)	(1,284)	(949)	(1,218)	(691)
Income (loss) before income taxes	(19,515)	(19,700)	(1,428)	(14,347)	7,959
Income tax (expense) benefit	4,612	(2,771)	(3,897)	(4,177)	(1,783)
Net income (loss)	(14,903)	(22,471)	(5,325)	(18,524)	6,176
Cumulative preferred stock dividends	(28,209)	(30,848)	(33,251)	(2,477)	—
Net income (loss) attributable to common stockholders	$ (43,112)	$ (53,319)	$ (38,576)	$ (21,001)	$ 6,176
Net income (loss) per share:(1)					
Basic	$ (5.27)	$ (4.78)	$ (2.86)	$ (0.27)	$ 0.07
Diluted	$ (5.27)	$ (4.78)	$ (2.86)	$ (0.27)	$ 0.07
Weighted average number of shares(1)(3)					
Basic	8,184	11,159	13,508	78,646	84,553
Diluted	8,184	11,159	13,508	78,646	87,237

(1) Basic income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. For the years ended December 31, 2008, 2009, 2010 and 2011, net loss attributable to common stockholders is increased for cumulative preferred stock dividends earned during these periods. For the periods where we presented losses, all potentially dilutive common shares comprising of stock options, restricted stock purchase rights, or RSPRs, restricted stock units, warrants and convertible preferred stock are antidilutive. RSPRs and restricted stock units are considered outstanding common shares and included in the computation of basic earnings per share as of the date that all necessary conditions of vesting are satisfied. RSPRs and restricted stock units are excluded from the diluted earnings per share calculation when their impact is antidilutive. Prior to satisfaction of all conditions of vesting, unvested RSPRs and restricted stock units are considered contingently issuable shares and are excluded from weighted average common shares outstanding.

(2) The Company completed one business acquisition during the year ended December 31, 2012, four business acquisitions during the year ended December 31, 2011 and two business acquisitions during the year ended December 31, 2008.

(3) In October 2010, our stockholders approved a 1-for-2 reverse stock split of our outstanding common stock, and a proportional adjustment to the existing conversion ratios for each series of preferred stock which was effected in January 2011. Accordingly, all share and per share amounts for all periods presented have been adjusted retrospectively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratio.

	December 31,				
	2008	2009	2010	2011	2012
Consolidated Balance Sheet Data:			(In thousands)		
Cash and cash equivalents and marketable securities	$ 103,496	$ 49,908	$ 32,338	$ 86,035	$ 102,933
Working capital	64,266	18,961	(4,226)	44,617	67,215
Total assets	526,401	467,790	488,467	590,103	637,997
Long term debt	55,000	10,000	—	—	—
Capital lease obligations, long term	—	488	—	—	793
Convertible preferred stock	373,754	373,754	373,754	—	—
Total stockholders' equity (deficit)	(8,746)	(23,079)	(15,416)	440,266	472,191

Non-GAAP Financial Measures

To provide investors and others with additional information regarding our financial results, we have disclosed in the table below the following non-GAAP financial measures: adjusted earnings before interest, taxes, depreciation and amortization, expense, or Adjusted EBITDA, and revenue less traffic acquisition costs, or Revenue ex-TAC. We have provided a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measures. Our non-GAAP Adjusted EBITDA financial measure differs from GAAP net income in that it excludes certain expenses such as interest, taxes, other income and expense, depreciation, amortization (including the amortization expense of our finite lived intangible assets related to our investment in media content assets), stock-based compensation, as well as the financial impact of acquisition and realignment costs, the formation expenses directly related to our generic Top Level Domain ("gTLD") initiative, any gains or losses on certain asset sales or dispositions and, when applicable, expenditures incurred in connection with our previously announced plan to explore the separation of the Company into two distinct publicly-traded companies. Acquisition and realignment costs include such items, when applicable, as (1) non-cash GAAP purchase accounting adjustments for certain deferred revenue and costs, (2) legal, accounting and other professional fees directly attributable to acquisition activity, and (3) integration and employee severance payments attributable to acquisition or corporate realignment activities. Our non-GAAP Revenue ex-TAC financial measure differs from GAAP revenue as it reflects our consolidated revenue net of our traffic acquisition costs. Adjusted EBITDA and Revenue ex-TAC are frequently used by securities analysts, investors and others as a common financial measure of our operating performance.

These non-GAAP financial measures are the primary measures used by our management and board of directors to understand and evaluate our financial performance and operating trends, including period to period comparisons, to prepare and approve our annual budget and to develop short and long term operational plans. Additionally, Adjusted EBITDA is the primary measure used by the compensation committee of our board of directors to establish the target for and ultimately fund our annual employee bonus pool for all bonus eligible employees. We also frequently use Adjusted EBITDA in our discussions with investors, commercial bankers and other users of our financial statements.

Management believes these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful period to period comparisons and analysis of trends. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period to period comparisons of our business' underlying recurring revenue and operating costs which is focused more closely on the current costs necessary to utilize previously acquired long-lived assets. In addition, we believe that it can be useful to exclude certain non-cash charges because the amount of such expenses is the result of long-term investment decisions in previous periods rather than day-to-day operating decisions. For example, due to the long-lived nature of our media content, revenue generated from our content assets in a given period bears little relationship to the amount of our investment in content in that same period. Accordingly, we believe that content acquisition costs represent a discretionary long-term capital investment decision undertaken by management at a point in time. This investment decision is clearly distinguishable from other ongoing business activities, and its discretionary nature and long term impact differentiate it from specific period transactions, decisions regarding day-to-day operations, and activities that would have immediate performance consequences if materially changed, deferred or terminated.

We believe that Revenue ex-TAC is a meaningful measure of operating performance because it is frequently used for internal managerial purposes and helps facilitate a more complete period to period understanding of factors and trends affecting our underlying revenue performance.

Accordingly, we believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our consolidated revenue and operating results in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

The following table presents a reconciliation of Revenue ex-TAC and Adjusted EBITDA for each of the periods presented:

	Year ended December 31,				
	2008	2009	2010	2011	2012
			(In thousands)		
Non-GAAP Financial Measures:					
Content & Media revenue	$ 84,821	$ 107,717	$ 152,910	$ 205,450	$ 246,399
Registrar revenue	85,429	90,735	100,026	119,416	134,179
Less: traffic acquisition costs (TAC)[(1)]	(7,655)	(10,554)	(12,213)	(12,495)	(19,441)
Total revenue ex-TAC	$ 162,595	$ 187,898	$ 240,723	$ 312,371	$ 361,137
Net income (loss)	$ (14,903)	$ (22,471)	$ (5,325)	$ (18,524)	$ 6,176
Add (deduct):					
Income tax expense/benefit	(4,612)	2,771	3,897	4,177	1,783
Interest and other expense, net	745	1,284	949	1,218	691
Depreciation and amortization[(2)]	43,710	47,115	52,016	68,132	60,334
Stock-based compensation[(3)]	5,970	7,736	9,689	28,856	31,368
Acquisition and realignment costs[(4)]	1,533	960	779	2,099	446
gTLD expense[(5)]	—	—	—	—	2,650
Gain on sale of asset[(6)]	—	(582)	—	—	—
Adjusted EBITDA	$ 32,443	$ 36,813	$ 62,005	$ 85,958	$ 103,448

(1) Represents revenue-sharing payments made to our network customers from advertising revenue generated from such customers' websites.

(2) Represents depreciation expense of our long-lived tangible assets and amortization expense of our finite-lived intangible assets, including amortization expense related to our investment in media content assets, included in our GAAP results of operations. Amortization expense for the years ended December 31, 2011 and 2012 includes $5.9 million and $2.1 million, respectively, of accelerated non-cash amortization expense associated with the removal of certain media content intangible assets from service during those years.

(3) Represents the fair value of stock-based awards and certain warrants to purchase our stock included in our GAAP results of operations.

(4) Acquisition and realignment costs include non-cash purchase accounting adjustments, acquisition-related legal and accounting professional fees and employee severance payments attributable to corporate realignment activities.

(5) Comprises formation expenses directly related to the Company's gTLD initiative that did not generate associated revenue in 2012.

(6) Represents a gain recognized on the sale of certain assets included in our GAAP operating results.

The use of non-GAAP financial measures has certain limitations because they do not reflect all items of income and expense that affect our operations. We compensate for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Part II, Item 6, "Selected Financial Data" and our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those discussed in "Disclosure Regarding Forward-Looking Statements" and Item I, Part 1A, "Risk Factors" included elsewhere in this Annual Report on Form 10-K.

Overview

We are a diversified Internet media and domain services company. We have developed a leading Internet-based model for the professional creation and distribution of high-quality, commercially valuable, long-lived content at scale, and we operate the world's largest wholesale registrar and the world's second largest registrar overall. Our business is comprised of two service offerings: Content & Media and Registrar. Our Content & Media offering is engaged in creating media content, primarily consisting of text articles and videos, and delivering content along with our social media and monetization tools to our owned and operated websites and mobile applications and to our network of customer websites and their mobile applications. Our Content & Media service offering also includes a portfolio of websites primarily containing advertising listings, which we refer to as undeveloped websites. Our Registrar service is the world's largest wholesale registrar of Internet domain names and the world's second largest registrar overall, based on the number of names under management, and provides domain name registration and related value-added services. We are also a leading participant in ICANN's, significant expansion of the number of generic Top Level Domain ("gTLDs"), which is expected to result in the delegation on new gTLDs commencing in 2013.

Our principal operations and decision-making functions are located in the United States. We report our financial results as one operating segment, with two distinct service offerings. Our operating results are regularly reviewed by our chief operating decision maker on a consolidated basis, principally to make decisions about how we allocate our resources and to measure our consolidated operating performance. Together, our service offerings provide us with proprietary data that facilitate the creation of commercially valuable, long-lived content, which we combine with broad distribution and targeted monetization capabilities. We currently generate the vast majority of our Content & Media revenue through the sale of advertising, and to a lesser extent through subscriptions to our social media applications and licensing and sales of select content and service offerings. Substantially all of our Registrar revenue is derived from domain name registration and related value-added service subscriptions. Our chief operating decision maker regularly reviews revenue for each of our Content & Media and Registrar service offerings in order to gain a greater understanding of the key business metrics driving our business. Accordingly, we report Content & Media and Registrar revenue separately.

In February 2013, we announced that our board of directors authorized a plan to explore separating the Company into two independent, publicly-traded companies: a pure-play Internet-based content and media company and a pure-play domain services company (hereinafter referred to as the "Proposed Business Separation"). We anticipate that the Proposed Business Separation will be structured as a tax-free pro rata distribution to stockholders of new publicly traded shares in the new domain services company. Consummation of the Proposed Business Separation is subject to final approval by our board of directors. Consummation of the Proposed Business Separation also is subject to satisfaction of several conditions, including confirmation of the transaction's tax-free treatment, receipt of listing approval, and the filing and effectiveness of a registration statement on Form 10 with the SEC. We have not yet finalized all of the details of the Proposed Business Separation and there is no assurance that the Proposed Business Separation as described herein will occur.

In January 2011, we completed our initial public offering and received proceeds, net of underwriters discounts but before deducting offering expenses, of $81.8 million from the issuance of 5.2 million shares of common stock. As a result of the initial public offering, all shares of our convertible preferred stock converted into 61.7 million shares of common stock and warrants to purchase common stock or convertible preferred stock net exercised into 0.5 million shares of common stock.

For the years ended December 31, 2010, 2011 and 2012, we reported revenue of $253 million, $325 million and $381 million, respectively. For the years ended December 31, 2010, 2011 and 2012, our Content & Media offering accounted for 61%, 63% and 65% of our total revenue, respectively, and our Registrar service accounted for 39%, 37% and 35% of our total revenue, respectively.

Key Business Metrics

We regularly review a number of business metrics, including the following key metrics, to evaluate our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. Measures which we believe are the primary indicators of our performance are as follows:

Content & Media Metrics

- page views: We define page views as the total number of web pages viewed across (1) our owned and operated websites and/or (2) our network of customer websites, to the extent that the viewed customer web pages host the Company's monetization, social media and/or content services. Page views are primarily tracked through internal systems, such as our Omniture web analytics tool, contain estimates for our customer websites using our social media tools and may use data compiled from certain customer websites. We periodically review and refine our methodology for monitoring, gathering, and counting page views in an effort to improve the accuracy of our measure.

- RPM: We define RPM as Content & Media revenue per one thousand page views.

Registrar Metrics

- domain: We define a domain as an individual domain name paid for by a third-party customer where the domain name is managed through our Registrar service offering. Beginning July 1, 2011, the number of net new domains has been adjusted to include only new registered domains added to our platform for which we have recognized revenue. This metric does not include any of the Company's owned and operated websites.

- average revenue per domain: We calculate average revenue per domain by dividing Registrar revenues for a period by the average number of domains registered in that period. The average number of domains is the simple average of the number of domains at the beginning and end of the period.

The following table sets forth additional performance highlights of key business metrics for the periods presented:

	Year ended December 31,			2010 to 2011	2011 to 2012
	2010	2011	2012	% Change	% Change
Content & Media Metrics [1]					
Owned & operated					
Page views (in millions)	8,234	10,378	13,192	26 %	27 %
RPM	$ 13.45	$ 15.14	$ 13.53	13 %	(11)%
Network of customer websites					
Page views (in millions)	13,155	17,436	18,989	33 %	9 %
RPM	$ 3.20	$ 2.77	$ 3.58	(13)%	29 %
RPM ex-TAC	$ 2.28	$ 2.06	$ 2.55	(10)%	24 %
Registrar Metrics [1]					
End of Period # of Domains [2] (in millions)	11.0	12.7	13.7	15 %	8 %
Average Revenue per Domain [2]	$ 9.96	$ 10.08	$ 10.19	1 %	1 %

(1) For a discussion of these period to period changes in the number of page views, RPM, end of period domains and average revenue per domain and how they impacted our financial results, see "Results of Operations" below.

(2) Beginning July 1, 2011, the number of net new domains has been adjusted to include only new registered domains added to our platform for which we have recognized revenue. Excluding the impact of this change, end of period domains at December 31, 2012 would have increased 13% and average revenue per domain during the year ended December 31, 2012 would have decreased 4%, each compared to the corresponding prior-year period.

Opportunities, Challenges and Risks

To date, we have derived the majority of our revenue through the sale of advertising in connection with our Content & Media service offering and through domain name registration subscriptions in our Registrar service offering. Our advertising revenue is primarily generated by advertising networks, which include both performance-based Internet advertising, such as cost-per-click where an advertiser pays only when a user clicks on its advertisement, and display Internet advertising, where an advertiser pays when the advertising is displayed. For the year ended December 31, 2012, the majority of our advertising revenue was generated by our relationship with Google. We deliver online advertisements provided by Google on our owned and operated websites as well as on certain of our customer websites where we share a portion of the advertising revenue. Additionally, we recognized significant revenue from our YouTube multi-channel premium video initiative during 2012. We do not expect to generate significant revenue under this agreement in 2013. For the years ended December 31, 2011 and 2012, approximately 33% and 38%, respectively, of our total consolidated revenue was derived from our advertising and content arrangements with Google. Google maintains the direct relationships with the advertisers and provides us with cost-per-click and display advertising services.

Growth in Content & Media revenue is principally dependent upon growth in page views and RPMs. Our recent growth in page views has been primarily due to an increase in the number of visitors to our library of content published in 2011 and earlier, the increase in the amount of our content distributed to our network of content partners, and traffic growth from mobile devices. We believe that there are opportunities to grow our page views by creating and publishing more content in a greater variety of formats on our owned and operated sites as well as expanding our network of customer websites. Our RPMs are subject to changes in the online advertising marketplace, where we expect ad unit price volatility, which could include lower rates received for certain ad units. Currently, our Content & Media revenue is primarily advertising-based; however, we believe there is an opportunity to diversify our revenue by expanding our paid content services, including offering paid subscriptions to access certain of our media content.

Google, the largest provider of search engine referrals to the majority of the Company's websites, regularly deploys changes to its search engine algorithms, some of which have led the Company to experience fluctuations in the total number of Google search referrals to its owned and operated and network of customer websites. Other search engines may deploy similar changes. In 2011, the overall impact of these changes on the Company's owned and operated websites was negative primarily due to a decline in traffic to eHow.com, the Company's largest website. In 2012, Google continued to make changes to its search engine algorithms; however, we do not believe that these changes in the aggregate had an overall negative impact on our traffic. In response to the changes in search engine algorithms in 2011, the Company performed an evaluation of its existing content library to identify potential improvements in its content creation and distribution platform. As a result of this evaluation, the Company elected to remove certain content assets from service, resulting in approximately $5.9 million and $2.1 million of accelerated amortization expense in the years ended December 31, 2011 and 2012, respectively.

We intend to evolve and continuously improve our content creation and distribution platform. During 2011 and 2012, we made certain improvements to this platform including establishment of more stringent criteria for the admission of content creators, an increase in our investment in video, long-form content and images, publication of content directed at international markets and in languages other than English, addition of content production algorithms targeted toward ensuring that each additional unit of content published is unique in relation to existing content units, as well as an expansion of the distribution of our content to our network of customer websites. As we made these improvements to our content creation and distribution platform, we reduced the level of our overall investment in media content in 2012 when compared to 2011. Based on our assessment of the results of these improvements, we increased our investment in media content over the course of 2012. We expect this trend to continue and anticipate increased media content expenditures in 2013 compared to 2012, including additional investment in short-form articles on our owned and operated sites including eHow.com, growth in content published on our network of customer websites and creation of new content formats, including paid content, designed to further diversify our content offering.

There can be no assurance that these or any future changes that may be implemented by the Company, by search engines to their algorithms and search methodologies, or by consumers in their web usage habits will not adversely impact the carrying value, estimated useful life or intended use of our long-lived assets. The Company will continue to monitor these changes as well as any future changes and emerging trends in search engine algorithms and methodologies, including the resulting impact that these changes may have on future operating results, the economic performance of the Company's long-lived assets and in its assessment as to whether significant changes in circumstances might provide an indication of potential impairment of the carrying value of its long-lived assets, including its media content and goodwill arising from acquisitions.

The growth in our Registrar revenue is dependent upon our ability to attract and retain customers to our Registrar platform through competitive pricing on domain registrations and value added services. Beginning in the first quarter of 2010 and extending through the third quarter of 2011, we added several customers with large volumes of domains to our Registrar platform. This resulted in fluctuations in our average revenue per domain over these periods, from which we only recognized revenue on a portion of these domain names while deferring revenue recognition on the remainder. Beginning July 1, 2011, we adjusted the number of net new domains to include only new registered domains added to our platform for which we have recognized revenue. Excluding the impact of this change, average revenue per domain during the year ended December 31, 2012 would have decreased 4% compared to the corresponding prior-year period, primarily due to the acquisition of Name.com on December 31, 2012 for which we did not recognize any revenue in 2012. In the near term, we anticipate our average revenue per domain to continue to fluctuate as a result of an increasing mix of large volume customers and the recent acquisition of Name.com. Due in part to the higher mix of large, higher volume customers in 2012 as compared to 2011, we also expect that the associated service costs as a percentage of revenue will increase when compared to our historical results.

The Internet Corporation for Assigned Names and Numbers, or ICANN, has approved a framework for the significant expansion of the number of gTLDs, which is expected to result in the delegation of new gTLDs commencing in 2013. We believe that such expansion, once completed, could result in an increase in the number of domains registered on our platform commencing in the second half of 2013. In addition, we believe that the New gTLD Program could also provide us with new revenue opportunities commencing in 2013, which include operating the back-end infrastructure for new gTLD registries and/or owning one or more gTLDs in our own right.

During the year ended December 31, 2012, the Company paid $18.2 million for certain gTLD applications under the New gTLD Program. Payments for gTLD applications represent amounts paid directly to ICANN and third parties in the pursuit of the Company's ownership of certain gTLD operator rights. While there can be no assurance that the Company will be awarded any gTLDs, the Company capitalizes payments made for gTLD applications that are determined to embody probable economic benefit, which are included in other long-term assets at December 31, 2012. During 2013 as part of the New gTLD Program, the Company may receive partial cash refunds for certain gTLD applications, and to the extent the Company elects to sell or dispose of certain gTLD applications throughout the process, it may also incur gains or losses on amounts invested. Gains on the sale of the Company's interest in gTLDs will be recognized when realized, while losses will be recognized when deemed probable. Upon the delegation of operator rights for each gTLD by ICANN, which the Company expects to commence in 2013, gTLD application fees will be reclassified as finite lived intangible assets and amortized on a straight-line basis over their estimated useful life. Other costs incurred by the Company as part of its gTLD initiative and not directly attributable to the acquisition of gTLD operator rights are expensed as incurred.

We expect to incur between $5 million and $10 million of formation expenses related to the New gTLD Program in 2013, and the total amount of our investment at the completion of the New gTLD Program could be substantially higher or lower than the amounts invested to date. Revenue is not expected to commence until the third quarter of 2013 at the earliest.

Our service costs, the largest component of our operating expenses, can vary from period to period, particularly as a percentage of revenue, based upon the mix of the underlying Content & Media and Registrar services revenues we generate. In the near term, we expect that the period-over-period growth in our Content & Media revenue will exceed the growth in our Registrar revenue, which would typically provide for higher operating margins. However, we expect that service costs will increase in 2013 compared to 2012 due to the growth of higher volume, lower margin Registrar customers offset by a substantial reduction of costs associated with our premium multi-channel initiative with YouTube. We believe that these factors, together with costs associated with our preparation for new gTLDs becoming available for registration later in 2013, will constrain our operating margin growth in the short-term as we increase our investment in new business initiatives to support future growth.

Our content studio identifies and creates online text articles and videos through a community of freelance creative professionals and is core to our business strategy and long-term growth initiatives. Historically, we have made substantial investments in our platform to support our community of freelance creative professionals and the growth of our content production and distribution and expect to continue to make such investments. As we develop new content formats, we may not be able to attract and retain qualified creative professionals to produce such new content at scale, which may adversely impact our ability to execute against emerging business opportunities or retain existing content creators.

For the year ended December 31, 2012, more than 90% of our revenue has been derived from websites and customers located in the United States. While our content is primarily targeted towards English-speaking users in the United States today, we believe that there is an opportunity in the longer term for us to create content targeted to users outside of the United States and thereby increase our revenue generated from countries outside of the United States. We plan to further expand our operations internationally to address this opportunity by launching new websites and expanding our existing web properties such as eHow en Español and eHow Brasil. As we expand our business internationally, we may incur additional expenses associated with this growth initiative.

Basis of Presentation

Revenue

Our revenue is derived from our Content & Media and Registrar service offerings.

Content & Media Revenue

We currently generate substantially all of our Content & Media revenue through the sale of advertising, and to a lesser extent through subscriptions to our social media applications and select content and service offerings. Articles and videos, each of which we refer to as a content unit, generate revenue both directly and indirectly. Direct revenue is directly attributable to a content unit, such as advertisements, including sponsored advertising links, display advertisements and in-text advertisements, on the same webpage on which the content is displayed. Beginning in 2013, we also expect to generate direct revenue from paid content subscription services. Indirect revenue is derived primarily by our content library, but is not directly attributable to a specific content unit. Indirect revenue includes advertising revenue generated from our owned and operated websites' home pages (e.g., home page of eHow.com), topic category webpages (e.g., home and garden category page), user generated article pages that feature content that was not acquired through our proprietary content acquisition process, and to a lesser extent, certain subscription-based revenue. Our revenue generating advertising arrangements, for both our owned and operated websites and our network of customer websites, include cost-per-click performance-based advertising; display advertisements where revenue is dependent upon the number of page views; and lead generating advertisements where revenue is dependent upon users registering for, or purchasing or demonstrating interest in, advertisers' products and services. We generate revenue from advertisements displayed alongside our content offered to consumers across a broad range of topics and categories on our owned and operated websites and on certain customer websites. Our advertising revenue also includes revenue derived from cost-per-click advertising links we place on undeveloped websites owned by us, which we acquire and sell on a regular basis, and certain of our customers. To a lesser extent, we also generate revenue from our subscription-based offerings, which include our social media applications deployed on our network of customer websites and subscriptions to premium content or services offered on certain of our owned and operated websites.

Where we enter into revenue sharing arrangements with our customers, such as those relating to IndieClick and our undeveloped customer websites, and when we are considered the primary obligor, we report the underlying revenue on a gross basis in our consolidated statements of operations, and record these revenue-sharing payments to our customers as traffic acquisition costs, or TAC, which are included in service costs. In circumstances where we distribute our content on third-party websites and the customer acts as the primary obligor we recognize revenue on a net basis.

Registrar Revenue

Our Registrar revenue is principally comprised of registration fees charged to resellers and consumers in connection with new, renewed and transferred domain name registrations. In addition, our Registrar also generates revenue from the sale of other value-added services that are designed to help our customers easily build, enhance and protect their domains, including security services, e-mail accounts and web-hosting. Finally, we generate revenue from fees related to auction services we provide to facilitate the selling of third-party owned domains. Our Registrar revenue varies based upon the number of domains registered, the rates we charge our customers and our ability to sell value-added services. We market our Registrar wholesale services under our eNom brand, and our retail registration services under the eNomCentral and Name.com brands, among others.

We expect to commence recognizing revenue from our gTLD initiative in the second half of 2013. The amount, as well as the timing of revenue, is uncertain and is dependent upon whether our applications for gTLDs are approved by ICANN, the outcome of negotiations or auctions to acquire the operating rights for gTLDs applications contested with other participants, and the continued progress of the overall ICANN new gTLD initiative.

Operating Expenses

Operating expenses consist of service costs, sales and marketing, product development, general and administrative, and amortization of intangible assets. Included in our operating expenses are stock-based compensation and depreciation expenses associated with our capital expenditures.

Service costs primarily consist of: fees paid to registries and ICANN associated with domain registrations; advertising revenue recognized by us and shared with others as a result of our revenue-sharing arrangements, such as TAC and content creator revenue-sharing arrangements; Internet connection and co-location charges and other platform operating expenses including depreciation of the systems and hardware used to build and operate our Content & Media platform and Registrar service; personnel costs related to in-house editorial, customer service and information technology; and certain content production costs. Our service costs are dependent on a number of factors, including the number of page views generated across our platform and the volume of domain registrations and value-added services supported by our Registrar service. In the near term, we expect higher overall registration costs as a percentage of revenue due to the recent growth in higher volume, lower margin Registrar customers and the Name.com acquisition as well as increased costs associated with our investment in new business initiatives in 2013, including our preparation for new gTLDs. We also anticipate increased traffic acquisition costs due to growth in network revenue and that content production costs will comprise a lower proportion of total service costs in 2013 compared to 2012, due to the substantial reduction in costs (and revenue) associated with our premium multi-channel video initiative with YouTube.

Sales and Marketing

Sales and marketing expenses consist primarily of sales and marketing personnel costs, sales support, public relations, advertising, marketing and general promotional expenditures. Fluctuations in our sales and marketing expenses are generally the result of our efforts to support the growth in our Content & Media service, including expenses required to support our direct advertising and content channel sales teams. We currently anticipate that our sales and marketing expenses will continue to increase in the near term as a percent of revenue as we continue to build our sales and marketing organizations and invest in marketing activities to support the growth of our business including our new gTLD initiative.

Product Development

Product development expenses consist primarily of expenses incurred in our software engineering, product development and web design activities and related personnel costs. Fluctuations in our product development expenses are generally the result of hiring personnel to support and develop our platform, including the costs to further develop our content algorithms, our owned and operated websites and future product and service offerings of our Registrar. We currently anticipate that our product development expenses will increase as we continue to hire more product development personnel and further develop our products and offerings to support the growth of our business, including our gTLD initiative and acquisition of Name.com, but remain relatively flat as a percentage of revenue compared to 2012.

General and Administrative

General and administrative expenses consist primarily of personnel costs from our executive, legal, finance, human resources and information technology organizations and facilities related expenditures, as well as third party professional fees, insurance and bad debt expenses. Professional fees are largely comprised of outside legal, audit and information technology consulting. During the year ended December 31, 2011 and 2012, our allowance for doubtful accounts and bad debt expense were not significant and we expect that this trend will continue in the near term. However, as we grow our revenue from direct advertising sales, which tend to have longer collection cycles, our allowance for doubtful accounts may increase, which may lead to increased bad debt expense. As we continue to expand our business, we anticipate general and administrative expenses will increase in the near term, primarily due to higher rent expense related to our expansion into new corporate headquarters in Santa Monica in 2013 and professional fees related to the potential separation of our business into two public companies.

Amortization of Intangibles

We capitalize certain costs allocated to the purchase price of certain identifiable intangible assets acquired in connection with business combinations, to acquire content that our models predict to embody probable economic benefit, and to acquire undeveloped websites, including initial registration costs. We amortize these costs on a straight-line basis over the related expected useful lives of these assets, which have a weighted average useful life of approximately 5.3 years on a combined basis as of December 31, 2012. We estimate our capitalized content to have a weighted average useful life of 5.1 years as of December 31, 2012. The Company determines the appropriate useful life of intangible assets by performing an analysis of expected cash flows based on its historical experience of intangible assets of similar quality and value. We expect intangible amortization expense to be relatively flat in the near term as we reduced our investment in content intangible assets in 2012 as compared to prior years and as a result of our election to remove certain articles from service in 2012, offset by additional amortization of other intangible assets, such as the amortization expense related to the Name.com acquisition in December 2012. Amortization as a percentage of revenue will depend upon a variety of factors, such as the amounts and mix of our investments in content and identifiable intangible assets acquired in business combinations.

Stock-based Compensation

Included in our operating expenses are expenses associated with stock-based compensation, which are allocated and included in service costs, sales and marketing, product development and general and administrative expenses. Stock-based compensation expense is largely comprised of costs associated with stock options and restricted stock units granted to employees, restricted stock issued to employees and expenses relating to our Employee Stock Purchase Plan. We record the fair value of these equity-based awards and expense at their cost ratably over related vesting periods. In addition, stock-based compensation expense includes the cost of warrants to purchase common and preferred stock issued to certain non-employees.

As of December 31, 2012, we had approximately $56.0 million of unrecognized employee related stock-based compensation, net of estimated forfeitures, that we expect to recognize over a weighted average period of approximately 2.5 years. Stock-based compensation expense in 2013 is expected to be relatively consistent with 2012 based on the existing unrecognized stock-based compensation expense, but may fluctuate depending on the magnitude of additional stock-based awards that we will make in order to continue to attract and retain employees and in connection with potential business acquisitions.

Interest Expense

Interest expense principally consists of interest on outstanding debt and amortization of debt issuance costs associated with our revolving credit facility. As of December 31, 2012 no principal balance was outstanding under the revolving credit facility.

Interest Income

Interest income consists of interest earned on cash balances and short-term investments. We typically invest our available cash balances in money market funds and short-term United States Treasury obligations.

Other Income (Expense), Net

Other income (expense), net consists primarily of transaction gains and losses on foreign currency-denominated assets and liabilities and changes in the value of certain long term investments and, prior to our initial public offering, changes in the fair value of our preferred stock warrant liability. We expect our transaction gains and losses will vary depending upon potential gains or losses on gTLD application negotiations as well as movements in underlying currency exchange rates which could become more significant as we continue to expand internationally. Our preferred stock warrants were net exercised for common stock upon our initial public offering in January 2011 and thus we no longer record changes in the value of the warrants subsequent to that date.

Provision for Income Taxes

Since our inception, we have been subject to income taxes principally in the United States, and certain other countries where we have legal presence, including the United Kingdom, the Netherlands, Canada, and Sweden. More recently we became subject to income taxes in Ireland and Argentina. We anticipate that as we expand our operations outside the United States, we will become subject to taxation based on the foreign statutory rates and our effective tax rate could fluctuate accordingly.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Based on the available information we have taken a full valuation allowance against all of our United States deferred tax assets. However, considering the Company's current year results and forecasted income, there is a possibility that the Company may release its valuation allowance against its deferred tax assets in the next 12 months.

As of December 31, 2012, we had approximately $66 million of federal and $13 million of state operating loss carry-forwards available to offset future taxable income which expire in varying amounts beginning in 2020 for federal and 2013 for state purposes if unused. Federal and state laws impose substantial restrictions on the utilization of net operating loss and tax credit carry-forwards in the event of an “ownership change,” as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Currently, we do not expect the utilization of our net operating loss and tax credit carry-forwards in the near term to be materially affected as no significant limitations are expected to be placed on these carry-forwards as a result of our previous ownership changes. If an ownership change is deemed to have occurred as a result of our initial public offering, potential near term utilization of these assets could be reduced.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with our revenue recognition, accounts receivable and allowance for doubtful accounts, capitalization and useful lives associated with our intangible assets, including our internal software and website development and content costs, income taxes, stock-based compensation and the recoverability of our goodwill and long-lived assets including our media content portfolio and gTLD applications, have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Revenue Recognition

We recognize revenue when four basic criteria are met: persuasive evidence of a sales arrangement exists; performance of services has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. We consider persuasive evidence of a sales arrangement to be the receipt of a signed contract. Collectability is assessed based on a number of factors, including transaction history and the credit worthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. We record cash received in advance of revenue recognition as deferred revenue.

Content & Media

Advertising Services

In determining whether an arrangement for our advertising services exists, we ensure that a binding arrangement is in place, such as a standard insertion order or a fully executed customer-specific agreement. Obligations pursuant to our advertising revenue arrangements typically include a minimum number of impressions or the satisfaction of the other performance criteria. Revenue from performance-based arrangements, including cost-per-click and referral revenues, is recognized as the related performance criteria are met. We assess whether performance criteria have been met and whether our fees are fixed or determinable based on a reconciliation of the performance criteria and an analysis of the payment terms associated with a transaction. The reconciliation of the performance criteria generally includes a comparison of third-party performance data, such as periodic online reports provided by certain of our customer websites, to the contractual performance obligation and to internal or customer performance data in circumstances where such data is available. Historically, any difference between the amounts recognized based on preliminary information and cash collected has not been material to our results of operations.

Where we enter into revenue sharing arrangements with our customers, such as for the online version of the San Francisco Chronicle or with respect to undeveloped customer websites, and when we are considered the primary obligor, we report the underlying revenues on a gross basis in our consolidated statements of operations. In circumstances where the customer acts as the primary obligor, such as YouTube, we recognize the underlying revenue on a net basis in our statement of operations.

Content Revenue

Content revenue is generated through the sale or license of media content. Revenue from the sale or perpetual license of content is recognized when the content has been delivered and the contractual performance obligations have been fulfilled. Revenue from the license of content is recognized over the period of the license as content is delivered or when other related performance criteria are fulfilled.

Subscription and Social Media Services

Subscription services revenue is generated through the sale of membership fees paid to access content available on certain owned and operated websites, such as Trails.com. Historically, the majority of the memberships ranged from six to twelve month terms, and generally renew automatically at the end of the membership term, if not previously canceled.

Membership revenue is recognized on a straight-line basis over the membership term.

We configure, host and maintain almost all of our platform's social media services for commercial customers. We earn revenues from our social media services through initial set-up fees, recurring management support fees, overage fees in excess of standard usage terms and outside consulting fees. Due to the fact that our social media services customers have no contractual right to take possession of our software, we account for our social media services as subscription service arrangements, whereby social media services revenues are recognized when persuasive evidence of an arrangement exists, delivery of the service has occurred and no significant obligations remain, the selling price is fixed or determinable and collectability is reasonably assured.

Social media service arrangements may contain multiple elements, including, but not limited to, single arrangements containing set-up fees, monthly support fees and overage billings and consulting services. To the extent that consulting services have value on a standalone basis and there is objective and reliable evidence of social media services, we allocate revenue to each element based upon each element's objective and reliable evidence of fair value. Objective and reliable evidence of fair value for all elements of a service arrangement is based upon our normal pricing and discounting practices for those services when such services are sold separately. To date, substantially all consulting services entered into concurrently with the original social media service arrangements are not treated as separate deliverables as such services are essential to the functionality of the hosted social media services and do not have value to the customer on a standalone basis. Such fees are recognized as revenue on a straight-line basis over the greater of the contractual or estimated customer life once monthly recurring services have commenced. Fees for other items are recognized as follows:

- *Customer set-up fees:* set-up fees are generally paid prior to the commencement of monthly recurring services. We initially defer set-up fees and recognize the related revenue straight-line over the greater of the contractual or estimated customer life once monthly recurring services have commenced.
- *Monthly support fees:* recognized each month at contractual rates.
- *Overage billings:* recognized when delivered and at contractual rates in excess of standard usage terms.

We determine the estimated customer life based on analysis of historical attrition rates, average contractual term and renewal expectations. We periodically review the estimated customer life and when events or changes in circumstances, such as significant customer attrition relative to expected historical or projected future results, occur. Outside consulting services performed for customers on a standalone basis are recognized ratably as services are performed at contractual rates.

Registrar

Domain Name Registration Fees

Registration fees charged to third parties in connection with new, renewed and transferred domain name registrations are recognized on a straight line basis over the registration term, which ranges from one to ten years. Payments received in advance of the domain name registration term are included in deferred revenue in our consolidated balance sheets. The registration term and related revenue recognition commences once we confirm that the requested domain name has been recorded in the appropriate registry under accepted contractual performance standards. Associated direct and incremental costs, which principally consist of registry and ICANN fees, are also deferred and expensed as service costs on a straight line basis over the registration term.

Our wholly owned subsidiary, eNom, is an ICANN accredited registrar. Thus, we are the primary obligor with our reseller and retail registrant customers and are responsible for the fulfillment of our registrar services. As a result, we report revenue derived from the fees we receive from our resellers and retail registrant customers for registrations on a gross basis in our consolidated statements of operations. A minority of our resellers have contracted with us to provide billing and credit card processing services to the resellers' retail customer base in addition to registration services. Under these circumstances, the cash collected from these resellers' retail customer base exceeds the fixed amount per transaction that we charge for domain name registration services. Accordingly, these amounts, which are collected for the benefit of the reseller, are not recognized as revenue and are recorded as a liability until remitted to the reseller on a periodic basis. Revenue from these resellers is reported on a net basis because the reseller determines the price to charge retail customers and maintains the primary customer relationship.

Value-added Services

Revenue from online Registrar value-added services, which include, but are not limited to, security certificates, domain name identification protection, charges associated with alternative payment methodologies, web hosting services and email services is recognized on a straight line basis over the period in which services are provided. Payments received in advance of services being provided are included in deferred revenue.

Auction Service Revenue

Domain name auction service revenue represents fees received from facilitating the sale of third-party owned domains through an online bidding process primarily through NameJet, a domain name aftermarket auction company. While certain names sold through the auction process are registered on our Registrar platform upon sale, we have determined that auction revenue and related registration revenue represent separate units of accounting, given that the domain name has value to the customers on a standalone basis and there is objective and reliable evidence of the fair value of the registration service. We recognize the related registration fees on a straight-line basis over the registration term. We recognize the bidding portion of auction revenues upon sale, net of payments to third parties since we are acting as an agent only.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consist of amounts due from:

- third parties who provide advertising services to our owned and operated websites and certain customer websites in exchange for a share of the underlying advertising revenue. Accounts receivable from these advertising providers are recorded as the amount of the revenue share as reported to us by them and are generally due within 30 to 45 days from the month-end in which the invoice is generated. Certain accounts receivable from these providers are billed quarterly and are due within 45 days from the quarter-end in which the invoice is generated, and are non-interest bearing;

- social media services customers and include: account set-up fees, which are generally billed and collected once set-up services are completed; monthly recurring services, which are billed in advance of services on a quarterly or monthly basis; account overages, which are billed when incurred and contractually due; and consulting services, which are generally billed in the same manner as set-up fees. Accounts receivable from social media customers are recorded at the invoiced amount, are generally due within 30 days and are non-interest bearing;

- direct advertisers who engage us to deliver branded advertising views. Accounts receivable from our direct advertisers are recorded at negotiated advertising rates (customarily based on advertising impressions) and as the related advertising is delivered over our owned and operated websites. Direct advertising accounts receivables are due within 30 to 60 days from the date the advertising services are delivered and billed;

- customers who syndicate the Company's content over their websites in exchange for a share of related advertising revenue. Accounts receivable from our customers are recorded at the revenue share as reported by our customers and are due within 30 to 45 days; and

- certain domain reseller customers of our Registrar service offering.

We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables from our customers based on our best estimate of the amount of probable losses from existing accounts receivable. We determine the allowance based on analysis of historical bad debts, advertiser concentrations, advertiser credit-worthiness and current economic trends. In addition, past due balances over 90 days and specific other balances are reviewed individually for collectability on at least a quarterly basis.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. We test goodwill for impairment annually during the fourth quarter of our fiscal year or when events or circumstances change that would indicate that goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends or significant underperformance relative to expected historical or projected future results of operations.

Goodwill is tested for impairment at the reporting unit level, which is one level below or the same as an operating segment. As of December 31, 2012, we determined that we have three reporting units. For 2012, in accordance with amended FASB guidance for goodwill impairment testing, the Company performed a qualitative assessment for its reporting units which management estimates each have fair values that significantly exceed their respective carrying values. For each reporting unit, the Company weighed the relative impact of factors that are specific to the reporting unit as well as industry and macroeconomic factors. The reporting unit specific factors that were considered included financial performance and changes to the reporting units' carrying amounts since the most recent impairment tests. For each reporting unit, the Company considered assumptions about sales, operating margins, and growth rates which are based on our forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. The Company also determined that the impact of macroeconomic factors on the discount rates and growth rates used for the most recent impairment tests would not significantly affect the fair value of the reporting units. Based on this qualitative assessment and considering the aggregation of these factors, the Company concluded that for each of its three reporting units, it is more likely than not that the fair value of each reporting unit exceeds its carrying amount and that it was therefore unnecessary to perform the two-step impairment test.

Capitalization and Useful Lives Associated with our Intangible Assets, including Content and Internal Software and Website Development Costs

We publish long-lived media content generated by our content studio which we commission and acquire from third-party freelance creative professionals. Direct costs incurred for each individual content unit that we determine embodies a probable future economic benefit are capitalized. The vast majority of direct content costs represent amounts paid to freelance creative professionals to acquire content units and, to a lesser extent, specifically identifiable internal direct labor costs incurred to enhance the value of acquired content units prior to their publication. Internal costs not directly attributable to the enhancement of content units acquired prior to publication are expensed as incurred. All costs incurred to deploy and publish content are expensed as incurred, including the costs incurred for the ongoing maintenance of websites on which our content resides. We generally acquire content when our internal systems and processes, including an analysis of millions of historical Internet search queries, advertising marketing terms, or keywords, and other data provide reasonable assurance that, given predicted consumer and advertiser demand relative to our predetermined cost to acquire the content, the content unit will generate revenues over its useful life that exceed the cost of acquisition. In determining whether content embodies probable future economic benefit required for asset capitalization, we make judgments and estimates including the forecasted number of page views and the advertising rates that the content will generate. These estimates and judgments take into consideration various inherent uncertainties including, but not limited to, total expected page views over the articles useful life, our expected ability to renew at favorable terms or replace certain material agreements with Google that currently provide a significant portion of our revenues; the expected ability of our direct advertising sales force to sell branded advertisements; the fact that our content creation and distribution model is new and evolving and may be impacted by competition and technological advancements; our ability to expand existing and enter into new distribution channels and applications for our content; and whether we will be able to continue to create content of the same quality or generate similar economic returns from content in the future. Management has reviewed, and intends to regularly review the operating performance of content in determining probable future economic benefits of our content.

We also capitalize initial registration and acquisition costs of our undeveloped websites and our internally developed software and website development costs during their development phase.

In addition we have also capitalized certain identifiable intangible assets acquired in connection with business combinations and we use valuation techniques to value these intangibles assets, with the primary technique being a discounted cash flow analysis. A discounted cash flow analysis requires us to make various judgmental assumptions and estimates including projected revenues, operating costs, growth rates, useful lives and discount rates.

Our finite lived intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the estimated pattern in which the underlying economic benefits are consumed. Capitalized website registration costs for undeveloped websites are amortized on a straight-line basis over their estimated useful lives of one to seven years. Internally developed software and website development costs are depreciated on a straight-line basis over their estimated three year useful life. We amortize our intangible assets acquired through business combinations on a straight-line basis over the period in which the underlying economic benefits are expected to be consumed.

Capitalized content is amortized on a straight-line basis over five years, representing our estimate of the pattern that the underlying economic benefits are expected to be realized and based on our estimates of the projected cash flows from advertising revenues expected to be generated by the deployment of our content. These estimates are based on our current plans and projections for our content, our comparison of the economic returns generated by content of comparable quality and an analysis of historical cash flows generated by that content to date which, particularly for more recent content cohorts, is somewhat limited. To date, certain content that we acquired in business combinations has generated cash flows from advertisements beyond a five year useful life. The acquisition of content, at scale, however, is a new and rapidly evolving model, and therefore we closely monitor its performance and, periodically, assess its estimated useful life.

Advertising revenue generated from the deployment of our media content makes up a significant element of our business such that amounts we record in our financial statements related to our content are material. Significant judgment is required in estimating the useful life of our content. Changes from the five year useful life we currently use to amortize our capitalized content would have a significant impact on our financial statements. For example, if underlying assumptions were to change such that our estimate of the weighted average useful life of our media content was higher by one year from January 1, 2012, our net income would increase by approximately $5 million for the year ended December 31, 2012, and our net income would decrease by approximately $4 million should the weighted average useful life be reduced by one year. We periodically assess the useful life of our content, and when adjustments in our estimate of the useful life of content are required, any changes from prior estimates are accounted for prospectively.

Recoverability of Long-lived Assets

We evaluate the recoverability of our intangible assets, and other long-lived assets with finite useful lives for impairment when events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. These trigger events or changes in circumstances include, but are not limited to a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, significant adverse changes in legal factors, including changes that could result from our inability to renew or replace material agreements with certain of our partners such as Google on favorable terms, significant adverse changes in the business climate including changes which may result from adverse shifts in technology in our industry and the impact of competition, a significant adverse deterioration in the amount of revenue or cash flows we expect to generate from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrates continuing losses associated with the use of our long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. We perform impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In making this determination, we consider the specific operating characteristics of the relevant long-lived assets, including (i) the nature of the direct and any indirect revenues generated by the assets; (ii) the interdependency of the revenues generated by the assets; and (iii) the nature and extent of any shared costs necessary to operate the assets in their intended use. An impairment test would be performed when the estimated undiscounted future cash flows expected to result from the use of the asset group is less than its carrying amount. Impairment is measured by assessing the usefulness of an asset by comparing its carrying value to its fair value. If an asset is considered impaired, the impairment loss is measured as the amount by which the carrying value of the asset group exceeds its estimated fair value. Fair value is determined based upon estimated discounted future cash flows. The key estimates applied when preparing cash flow projections relate to revenues, operating margins, economic life of assets, overheads, taxation and discount rates. To date, we have not recognized any such impairment loss associated with our long-lived assets.

Income Taxes

We account for our income taxes using the liability and asset method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or in our tax returns. In estimating future tax consequences, generally all expected future events other than enactments or changes in the tax law or rates are considered. Deferred income taxes are recognized for differences between financial reporting and tax bases of assets and liabilities at the enacted statutory tax rates in effect for the years in which the temporary differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate the realizability of our deferred tax assets and valuation allowances are provided when necessary to reduce deferred tax assets to the amounts expected to be realized.

We operate in various tax jurisdictions and are subject to audit by various tax authorities. We provide tax contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. Tax contingencies are based upon their technical merits, and relevant tax law and the specific facts and circumstances as of each reporting period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax contingencies.

We recognize a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. We recognize interest and penalties accrued related to unrecognized tax benefits in our income tax (benefit) provision in the accompanying statements of operations.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified. The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

Stock-based Compensation

We measure and recognize compensation expense for all share-based payment awards made to employees and directors based on the grant date fair values of the awards. For stock option awards to employees with service and/or performance based vesting conditions, the fair value is estimated using the Black-Scholes option pricing model. The value of an award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of operations. We elected to treat share-based payment awards, other than performance awards, with graded vesting schedules and time-based service conditions as a single award and recognize stock-based compensation expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. Stock-based compensation expenses are classified in the statement of operations based on the department to which the related employee reports. Our stock-based awards are comprised principally of stock options, restricted stock units, restricted stock awards and restricted stock purchase rights.

Some employee award grants contain certain performance and/or market conditions. We recognize compensation cost for awards with performance conditions based upon the probability of the performance condition being met, net of an estimate of pre-vesting forfeitures. Awards granted with performance and/or market conditions are amortized using the graded vesting method. The effect of a market condition is reflected in the award's fair value on the grant date. We use a Monte Carlo simulation model or a binomial lattice model to determine the grant date fair value of awards with market conditions. All compensation expense for an award that has a market condition is recognized as the requisite service period is fulfilled, even if the market condition is never satisfied.

We account for stock options issued to non-employees in accordance with the guidance for equity-based payments to non-employees. Stock option awards to non-employees are accounted for at fair value using the Black-Scholes option pricing model. Our management believes that the fair value of stock options is more reliably measured than the fair value of the services received. The fair value of the unvested portion of the options granted to non-employees is re-measured each period. The resulting increase in value, if any, is recognized as expense during the period the related services are rendered.

The Black-Scholes option pricing model requires management to make assumptions and to apply judgment in determining the fair value of our awards. The most significant assumptions and judgments include estimating the fair value of our underlying stock, the expected volatility and the expected term of the award. In addition, the recognition of stock-based compensation expense is impacted by estimated forfeiture rates.

Because our common stock was not publicly traded since our inception through January 31, 2011, we estimated the expected volatility of our awards from the historical volatility of selected public companies within the Internet and media industry with comparable characteristics to us, including similarity in size, lines of business, market capitalization, revenue and financial leverage. From our inception through December 31, 2008, the weighted average expected life of options was calculated using the simplified method as prescribed under guidance by the SEC. This decision was based on the lack of relevant historical data due to our limited experience and the lack of an active market for our common stock. Effective January 1, 2009, we calculated the weighted average expected life of our options based upon our historical experience of option exercises combined with estimates of the post-vesting holding period. The risk free interest rate is based on the implied yield currently available on U.S. Treasury issues with terms approximately equal to the expected life of the option. The expected dividend rate is zero based on the fact that we currently have no history or expectation of paying cash dividends on our common stock. The forfeiture rate is established based on the historical average period of time that options were outstanding and adjusted for expected changes in future exercise patterns.

Under the Company's Employee Stock Purchase Plan (the "ESPP"), eligible officers and employees may purchase a limited amount of our common stock at a discount to the market price in accordance with the terms of the plan as described in Note 11 (Share-based Compensation Plans and Awards) to our consolidated financial statements. The Company uses the Black-Scholes option pricing model to determine the fair value of the ESPP awards granted which is recognized straight-line over the total offering period.

Some equity awards granted by the Company contain certain performance and/or market conditions. The Company recognizes compensation cost for awards with performance conditions based upon the probability of that performance condition being met, net of an estimate of pre-vesting forfeitures. Awards granted with performance and/or market conditions are amortized using the graded vesting method.

The effect of a market condition is reflected in the award’s fair value on the grant date. The Company uses a Monte Carlo simulation model or binomial lattice model to determine the grant date fair value of awards with market conditions. Compensation cost for an award that has a market condition is recognized as the requisite service period is fulfilled, even if the market condition is never satisfied.

Stock-based awards issued to non-employees are accounted for at fair value determined using the Black-Scholes option-pricing model. Management believes that the fair value of the stock options is more reliably measured than the fair value of the services received. The fair value of each non-employee stock-based compensation award is re-measured each period until a commitment date is reached, which is generally the vesting date.

Results of Operations

The following tables set forth our results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Year ended December 31,		
	2010	2011	2012
		(In thousands)	
Revenue	$ 252,936	$ 324,866	$ 380,578
Operating expenses[1][2]:			
Service costs (exclusive of amortization of intangible assets)	131,332	155,830	181,018
Sales and marketing	24,424	37,394	46,501
Product development	26,538	38,146	40,708
General and administrative	37,371	59,451	63,025
Amortization of intangible assets	33,750	47,174	40,676
Total operating expenses	253,415	337,995	371,928
Income (loss) from operations	(479)	(13,129)	8,650
Other income (expense)			
Interest income	25	56	42
Interest expense	(688)	(861)	(622)
Other income (expense), net	(286)	(413)	(111)
Total other expense	(949)	(1,218)	(691)
Income (loss) before income taxes	(1,428)	(14,347)	7,959
Income tax expense	(3,897)	(4,177)	(1,783)
Net income (loss)	(5,325)	(18,524)	6,176
Cumulative preferred stock dividends	(33,251)	(2,477)	—
Net income (loss) attributable to common shareholders	$ (38,576)	$ (21,001)	$ 6,176

(1) Depreciation expense included in the above line items:

Service costs	$ 14,783	$ 16,075	$ 14,452
Sales and marketing	187	423	453
Product development	1,346	1,466	1,025
General and administrative	1,950	2,994	3,728
Total depreciation expense	$ 18,266	$ 20,958	$ 19,658

(2) Stock-based compensation included in the above line items:

Service costs	$ 868	$ 2,052	$ 2,820
Sales and marketing	2,379	4,857	6,118
Product development	1,692	5,013	6,452
General and administrative	4,750	16,934	15,978
Total stock-based compensation	$ 9,689	$ 28,856	$ 31,368

As a percentage of revenue:

	Year ended December 31,		
	2010	2011	2012
Revenue	100.0 %	100.0 %	100.0 %
Operating expenses:			
Service costs (exclusive of amortization of intangible assets)	51.9 %	48.0 %	47.6 %
Sales and marketing	9.7 %	11.5 %	12.2 %
Product development	10.5 %	11.7 %	10.7 %
General and administrative	14.8 %	18.3 %	16.6 %
Amortization of intangible assets	13.3 %	14.5 %	10.7 %
Total operating expenses	100.2 %	104.0 %	97.7 %
Income (loss) from operations	(0.2)%	(4.0)%	2.3 %
Other income (expense)			
Interest income	— %	— %	— %
Interest expense	(0.3)%	(0.3)%	(0.2)%
Other income (expense), net	(0.1)%	(0.1)%	— %
Total other expense	(0.4)%	(0.4)%	(0.2)%
Income (loss) before income taxes	(0.6)%	(4.4)%	2.1 %
Income tax expense	(1.5)%	(1.3)%	(0.5)%
Net income (loss)	(2.1)%	(5.7)%	1.6 %

Revenue

Revenue by service line was as follows:

	Year Ended December 31,			% Change	
	2010	2011	2012	2010 to 2011	2011 to 2012
		(In thousands)			
Content & Media:					
Owned and operated websites	$ 110,770	$ 157,089	$ 178,511	42%	14%
Network of customer websites	42,140	48,361	67,888	15%	40%
Total Content & Media	152,910	205,450	246,399	34%	20%
Registrar	100,026	119,416	134,179	19%	12%
Total revenue	$ 252,936	$ 324,866	$ 380,578	28%	17%

Content & Media Revenue from Owned and Operated Websites

2012 compared to 2011. Content & Media revenue from our owned and operated websites increased by $21.4 million, or 14%, to $178.5 million for the year ended December 31, 2012, as compared to $157.1 million for the same period in 2011. The increase was largely due to increased page views partially offset by decreased RPMs. Page views on our owned and operated websites increased by 27%, from 10,378 million page views in the year ended December 31, 2011 to 13,192 million page views in the year ended December 31, 2012. RPMs on our owned and operated websites decreased by 11%, from $15.14 in the year ended December 31, 2011 to $13.53 in the year ended December 31, 2012. The page view increase included the impact of a website product enhancement we implemented in the second quarter of 2011 with respect to the presentation of photo-centric content on certain of the Company's owned and operated sites, which did not impact advertising impressions. Excluding the impact of such change, we estimate that during the year ended December 31, 2012, page views would have increased approximately 19% and RPMs would have decreased 4%, compared to the corresponding prior year. The remaining increase in underlying page views was due primarily to growth in traffic, including rapid growth in traffic from mobile devices, to our content published during or before 2011 on our largest owned and operated websites including eHow.com and Cracked.com.

The underlying decrease in RPMs was primarily attributable to relatively higher growth in page views driven from mobile devices which currently generate lower RPMs as compared to those generated from desktop devices.

2011 compared to 2010. Content & Media revenue from our owned and operated websites increased by $46.3 million, or 42%, to $157.1 million for the year ended December 31, 2011, as compared to $110.8 million for the same period in 2010. The increase was largely due to increased page views and RPMs. Page views on our owned and operated websites increased by 26%, from 8,234 million page views in the year ended December 31, 2010 to 10,378 million page views in the year ended December 31, 2011. RPMs on our owned and operated websites increased by 13%, from $13.45 in the year ended December 31, 2010 to $15.14 in the year ended December 31, 2011. The page view increase included the impact of a website product enhancement we implemented in the second quarter of 2011 with respect to the presentation of photo-centric content on certain of the Company's owned and operated sites, which did not impact advertising impressions. Excluding the impact of such change, we estimate that during the year ended December 31, 2011, page views would have increased approximately 19% and RPMs would have increased 19%, compared to the corresponding prior year. The remaining increase in underlying page views was due primarily to increased publishing of our platform content on our owned and operated websites. The underlying increase in RPMs was primarily attributable to the overall increase in page views on eHow, which has higher RPMs than the weighted average of our other owned and operated websites, as well as an increase in RPMs on the monetization of our undeveloped websites. In addition, RPM growth was driven by increased display advertising revenue sold directly through our sales force during the year ended December 31, 2011 as compared to 2010. On average, our direct display advertising sales generate higher RPMs than display advertising that we deliver from our advertising networks, such as Google.

Content & Media Revenue from Network of Customer Websites

2012 compared to 2011. Content & Media revenue from our network of customer websites for the year ended December 31, 2012 increased by $19.5 million, or 40%, to $67.9 million, as compared to $48.4 million in the same period in 2011. The increase was largely due to growth in both page views and RPMs. Page views on our network of customer websites increased by 1,553 million, or 9%, from 17,436 million page views in the year ended December 31, 2011, to 18,989 million pages viewed in the year ended December 31, 2012. The increase in page views was due primarily to the acquisition of IndieClick on August 8, 2011, which contributed approximately 7.5 billion page views during the year ended December 31, 2012 compared to approximately 3.1 billion in 2011 as well as growth in content channel arrangements where we deploy our content to third party customer websites. These increases were partially offset by a decrease in reported page views associated with our social media customers. RPMs increased 29% from $2.77 in the year ended December 31, 2011 to $3.58 in the year ended December 31, 2012. The increase in RPMs was largely due to higher revenue earned under the premium multi-channel initiative with YouTube, growth in content channel arrangements and the decline in page views from lower yielding social media customers.

2011 compared to 2010. Content & Media revenue from our network of customer websites for the year ended December 31, 2011 increased by $6.2 million, or 15%, to $48.4 million, as compared to $42.1 million in the same period in 2010. The increase was largely due to growth in page views, offset by a decline in RPMs. Page views on our network of customer websites increased by 4,281 million, or 33%, from 13,155 million page views in the year ended December 31, 2010, to 17,436 million pages viewed in the year ended December 31, 2011. The increase in page views was due primarily to the acquisition of IndieClick on August 8, 2011, which contributed 3.1 billion page views during the period, growth in publishers utilizing our social media applications and growth in content channel arrangements where we deploy our content to third party customer websites. RPMs decreased 13% from $3.20 in the year ended December 31, 2010 to $2.77 in the year ended December 31, 2011. The decrease in RPMs was largely due to a mix shift toward lower RPM page views such as IndieClick and our social media customers, as well as slight declines in advertising yields from our advertising networks relating to our customers' undeveloped websites.

Registrar Revenue

Registrar revenue for the year ended December 31, 2012 increased $14.8 million, or 12%, to $134.2 million compared to $119.4 million for the same period in 2011. The increase was largely due to an increase in domains, which were attributable in large part to an increased number of new domain registrations and domain renewal registrations in 2012 compared to 2011, as well as an overall increase in our average revenue per domain. The number of domain registrations increased 1.0 million, or 8%, to 13.7 million during the year ended December 31, 2012 as compared to 12.7 million in the same period in 2011. The increase was driven by new partnerships with large reseller partners and growth from existing resellers. Our average revenue per domain increased slightly by $0.11, or 1%, to $10.19 during the year ended December 31, 2012 from $10.08 in the same period in 2011 due in part to an increase in value added services revenue as compared to 2011.

Beginning July 1, 2011, the number of net new domains has been adjusted to include only new registered domains added to our platform for which we have recognized revenue. Excluding the impact of this change, end of period domains at December 31, 2012 would have increased 13% compared to the prior year and average revenue per domain during the year ended December 31, 2012 would have decreased 4% compared to the prior year, primarily due to the acquisition of Name.com on December 31, 2012 for which we did not recognize any revenue in 2012.

2011 compared to 2010. Registrar revenue for the year ended December 31, 2011 increased $19.4 million, or 19%, to $119.4 million compared to $100.0 million for the same period in 2010. The increase was largely due to an increase in domains, which were attributable in large part to an increased number of new domain registrations and domain renewal registrations in 2011 compared to 2010, as well as an overall increase in our average revenue per domain. The number of domain registrations increased 1.7 million, or 15%, to 12.7 million during the year ended December 31, 2011 as compared to 11.0 million in the same period in 2010 driven by new partnerships with large domain owners and growth from existing resellers. Our average revenue per domain increased slightly by $0.12, or 1%, to $10.08 during the year ended December 31, 2011 from $9.96 in the same period in 2010 due in part to an increase in value added services revenue as compared to 2010.

Beginning July 1, 2011, the number of net new domains has been adjusted to include only new registered domains added to our platform for which we have recognized revenue. Excluding the impact of this change, end of period domains at December 31, 2011 would have increased 22% compared to the prior year and average revenue per domain during the year ended December 31, 2011 would have decreased 2% compared to the prior year.

Cost and Expenses

Operating costs and expenses were as follows:

	Year ended December 31,			% Change	
	2010	2011	2012	2010 to 2011	2011 to 2012
		(in thousands)			
Service costs (exclusive of amortization of intangible assets)	$ 131,332	$ 155,830	$ 181,018	19%	16 %
Sales and marketing	24,424	37,394	46,501	53%	24 %
Product development	26,538	38,146	40,708	44%	7 %
General and administrative	37,371	59,451	63,025	59%	6 %
Amortization of intangible assets	33,750	47,174	40,676	40%	(14)%

Service Costs

2012 compared to 2011. Service costs for the year ended December 31, 2012 increased by approximately $25.2 million, or 16%, to $181.0 million compared to $155.8 million in the same period in 2011. The increase was largely due to a $15.0 million increase in domain registry fees associated with our growth in domain registrations and related revenue over the same period, a $6.9 million increase in traffic acquisition costs primarily related to the acquisition of IndieClick in August 2011, a $3.6 million increase in content and related costs including premium video, a $1.5 million increase in related information technology expense and a $0.9 million increase in personnel and related costs due to increased head count. These increases were partially offset by a $1.6 million decrease in depreciation expense of technology assets purchased in the prior and current periods that are used to manage our Internet traffic, data centers, advertising transactions and domain registrations. As a percentage of revenues, service costs (exclusive of amortization of intangible assets) decreased 40 basis points to 47.6% for the year ended December 31, 2012 from 48.0% during the same period in 2011 primarily due to Content & Media revenues representing a higher percentage of total revenues during the year ended December 31, 2012 as compared to the same period in 2011.

2011 compared to 2010. Service costs for the year ended December 31, 2011 increased by approximately $24.5 million, or 19%, to $155.8 million compared to $131.3 million in the same period in 2010. The increase was largely due to a $12.5 million increase in domain registry fees associated with our growth in domain registrations and related revenue over the same period, a $6.1 million increase in content and related costs, a $1.7 million increase in related information technology expense and a $1.3 million increase in depreciation expense of technology assets purchased in the prior and current periods required to manage the growth of our Internet traffic, data centers, advertising transactions, domain registrations and new products and services and a $2.6 million increase in personnel and related costs due to increased head count. As a percentage of revenues, service costs (exclusive of amortization of intangible assets) decreased 390 basis points to 48.0% for the year ended

December 31, 2011 from 51.9% during the same period in 2010 primarily due to Content & Media revenues representing a higher percentage of total revenues during the year ended December 31, 2011 as compared to the same period in 2010.

Sales and Marketing

2012 compared to 2011. Sales and marketing expenses increased 24%, or $9.1 million, to $46.5 million for the year ended December 31, 2012 from $37.4 million for the same period in 2011. The increase was primarily due to our direct sales and marketing efforts in 2012 and acquisition of IndieClick in August 2011 and included a $4.1 million increase in personnel related costs, including stock-based compensation expense and sales commissions and $4.9 million related to expansion of marketing and promotional activities to support growth in our Content and Media business. Stock-based compensation expense in 2012 included $0.3 million incremental expense related to the early termination of a warrant issued in 2011 as part of the website development, endorsement and license agreement with Bankable Enterprises, Inc. As a percentage of revenue, sales and marketing expense increased 70 basis points to 12.2% during the year ended December 31, 2012 from 11.5% during the same period in 2011.

2011 compared to 2010. Sales and marketing expenses increased 53%, or $13.0 million, to $37.4 million for the year ended December 31, 2011 from $24.4 million for the same period in 2010. The increase was primarily due to our direct sales and marketing efforts in 2011 and acquisition of IndieClick in August 2011 and included a $10.1 million increase in personnel related costs, including stock-based compensation expense and sales commissions and $1.8 million related to expansion of marketing and promotional activities. As a percentage of revenue, sales and marketing expense increased 180 basis points to 11.5% during the year ended December 31, 2011 from 9.7% during the same period in 2010.

Product Development

2012 compared to 2011. Product development expenses increased by $2.6 million, or 7%, to $40.7 million during the year ended December 31, 2012 compared to $38.1 million in the same period in 2011. The increase was largely due to an approximately $2.8 million increase in personnel and related costs including stock-based compensation expense, net of internal costs capitalized as internal software development. These costs increased as a result of our decision to hire additional employees to further develop our platform, our owned and operated websites, and to support and grow our Registrar product and service offerings as well as our new gTLD initiative. These costs were partially offset by a $0.4 million decrease in depreciation expense. As a percentage of revenue, product development expenses decreased 100 basis points to 10.7% during the year ended December 31, 2012 compared to 11.7% during the same period in 2011 due to the factors described above as well as the revenue growth during the same period.

2011 compared to 2010. Product development expenses increased by $11.6 million, or 44%, to $38.1 million during the year ended December 31, 2011 compared to $26.5 million in the same period in 2010. The increase was largely due to approximately $9.1 million increase in personnel and related costs including stock-based compensation expense, net of internal costs capitalized as internal software development, due to additional headcount to further develop our platform, our owned and operated websites, and to support and grow our Registrar product and service offerings. The remaining increase was largely attributable to additional consultant and associated costs of $2.2 million incurred to develop and enhance new and existing products to support the growth in our business, as well as a $0.1 million increase in depreciation expense. The stock-based compensation expense for the year ended December 31, 2011 included a one-time charge of $0.4 million related to certain stock awards vesting on certain conditions related to our initial public offering. As a percentage of revenue, product development expenses increased 120 basis points to 11.7% during the year ended December 31, 2011 compared to 10.5% during the same period in 2010.

General and Administrative

2012 compared to 2011. General and administrative expenses increased by $3.6 million, or 6%, to $63.0 million during the year ended December 31, 2012 compared to $59.5 million in the same period in 2011. The increase was primarily due to a $1.5 million increase in professional services and consulting fees primarily related to our public company compliance initiatives and business acquisitions, a $0.5 million increase in facilities and rent expense for additional office space and a $0.7 million increase in depreciation expense. As a percentage of revenue, general and administrative costs decreased 170 basis points to 16.6% during the year ended December 31, 2012 compared to 18.3% during the same period in 2011.

2011 compared to 2010. General and administrative expenses increased by $22.1 million, or 59%, to $59.5 million during the year ended December 31, 2011 compared to $37.4 million in the same period in 2010. The increase was primarily due to a $15.8 million increase in personnel related costs, inclusive of a $12.2 million increase stock-based compensation expense, due to additional headcount to support the growth of our business and the first year as a public company, a $1.7 million increase in professional fees primarily related to our public company compliance initiatives and business acquisitions, a $1.9 million increase in facilities and rent expense for additional office space and a $1.0 million increase in depreciation expense. The stock-based compensation expense for the year ended December 31, 2011 included a one-time charge of $4.6 million related to certain stock awards vesting on certain conditions related to our initial public offering. As a percentage of revenue, general and administrative costs increased 350 basis points to 18.3% during the year ended December 31, 2011 compared to 14.8% during the same period in 2010.

Amortization of Intangibles

2012 compared to 2011. Amortization expense for the year ended December 31, 2012 decreased by $6.5 million, or 14%, to $40.7 million compared to $47.2 million in the same period in 2011. The decrease was primarily due to $5.9 million of accelerated amortization expense in the year ended December 31, 2011 compared to $2.1 million in the year ended December 31, 2012 resulting from our election to remove certain content assets from service in conjunction with improvements to our content creation and distribution platform. The remaining movement is mainly due to a reduction in amortization expense of media content related to the reduction in investment levels in 2012 compared to previous years as well as a reduction from fully amortized intangible assets acquired in business acquisitions in prior years, partially offset by incremental amortization expense of approximately $1.0 million in 2012 compared to 2011 relating to the four business acquisitions completed throughout 2011. As a percentage of revenue, amortization of intangible assets decreased 380 basis points to 10.7% during the year ended December 31, 2012 compared to 14.5% during the same period in 2011 as a result of the increase in revenue and the factors listed above.

2011 compared to 2010. Amortization expense for the year ended December 31, 2011 increased by $13.4 million, or 40%, to $47.2 million compared to $33.8 million in the same period in 2010. The increase was primarily due to a $15.5 million increase in amortization of media content which resulted from our increased investment in our content library during 2011 compared to 2010, $5.9 million of accelerated amortization expense resulting from our election to remove certain content assets from service in the fourth quarter of 2011 in conjunction with improvements to our content creation and distribution platform and incremental amortization expense of $1.4 million in the period arising from acquisitions completed in 2011. Offsetting this was a decrease of $3.5 million in the amortization of certain intangible assets primarily acquired via acquisitions in prior years that are now fully amortized. As a percentage of revenue, amortization of intangible assets increased 120 basis points to 14.5% during the year ended December 31, 2011 compared to 13.3% during the same period in 2010 as the result of the factors listed above.

Interest Income

Interest income for the year ended December 31, 2012 and 2011, respectively, changed by less than $0.1 million compared to the same period in the prior year.

Interest Expense

2012 compared to 2011. Interest expense for the year ended December 31, 2012 decreased by $0.2 million compared to the same period in 2011 primarily due to a one-time acceleration of the unamortized debt issuance costs following the replacement of our credit facility in the third quarter of 2011.

2011 compared to 2010. Interest expense for the year ended December 31, 2011 increased by $0.2 million compared to the same period in 2010 primarily due to a one-time acceleration of the unamortized debt issuance costs following the replacement of our credit facility in the third quarter of 2011.

Other Income (Expense), Net

2012 compared to 2011. Other income (expense), net for the year ended December 31, 2012 decreased by $0.3 million to $(0.1) million of expense compared to $(0.4) million in the same period in 2011. The decrease in other income (expense) net during the year ended December 31, 2012 was primarily a result of a non-recurring $0.3 million of expense in 2011 related to the change in the value of our preferred stock warrants which were recorded at fair value with changes in value recorded in earnings through the closing date of our initial public offering.

2011 compared to 2010. Other income (expense), net for the year ended December 31, 2011 increased by $0.1 million to $(0.4) million of expense compared to $(0.3) million in the same period in 2010. The increase in other income (expense) net during the year ended December 31, 2011 was primarily a result of the change in the value of our preferred stock warrants which were recorded at fair value with changes in value recorded in earnings through the closing date of our initial public offering.

Income Tax (Benefit) Provision

2012 compared to 2011. During the year ended December 31, 2012, we recorded an income tax provision of $1.8 million compared to $4.2 million during the same period in 2011, representing a $2.4 million or 57% decrease. The decrease was primarily due to changes in state apportionment and revenue sourcing laws that became effective in 2012. In addition, we experienced a one-time tax savings as a result of settling a tax issue in a foreign jurisdiction.

2011 compared to 2010. During the year ended December 31, 2011, we recorded an income tax provision of $4.2 million compared to $3.9 million during the same period in 2010, representing a $0.3 million or 7% increase. The increase was primarily due to the recognition of a full valuation allowance against our state deferred tax assets during 2011. Our state deferred taxes reached a net deferred tax asset position during 2011, excluding the deferred tax liability for tax deductible goodwill, which is excluded because the ultimate realization of which is uncertain and thus not available to assure the realization of deferred tax assets. Our valuation allowance, which increased by $8.3 million from $14.4 million during the year ended December 31, 2010 to $22.7 million in the same period in 2011 now applies to both federal and state deferred tax assets. In addition, the tax increase was also impacted by movement in the company's state tax apportionment rates due to changes in state tax laws and the Company's state tax footprint during 2011, partially offset by a one-time benefit of $0.7 million associated with a business acquisition during 2011.

Selected Quarterly Financial Data

The following unaudited quarterly consolidated statements of operations for the quarters in the years ended December 31, 2011 and 2012, have been prepared on a basis consistent with our audited consolidated annual financial statements, and include, in the opinion of management, all normal recurring adjustments necessary for the fair statement of the financial information contained in those statements. The period-to-period comparison of financial results is not necessarily indicative of future results and should be read in conjunction with our consolidated annual financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Quarter Ended,							
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	(in thousands, except per share data)							
	Unaudited							
Revenue:								
Content & Media:								
Owned and operated websites	$ 40,524	$ 39,095	$ 38,298	$ 39,172	$ 39,348	$ 44,990	$ 45,377	$ 48,796
Network websites	11,328	10,727	12,446	13,860	14,615	14,677	18,759	19,837
Total Content & Media	51,852	49,822	50,744	53,032	53,963	59,667	64,136	68,633
Registrar	27,671	29,633	30,729	31,383	32,271	33,388	34,011	34,509
Total revenue	79,523	79,455	81,473	84,415	86,234	93,055	98,147	103,142
Operating expenses[(1)(2)]:								
Service costs (exclusive of amortization of intangible assets)[(3)]	37,654	37,869	40,109	40,198	41,262	44,367	46,524	48,865
Sales and marketing	9,583	9,286	9,200	9,325	10,393	11,660	11,625	12,823
Product development	9,251	9,642	9,791	9,462	10,124	10,587	10,278	9,719
General and administrative	17,024	13,787	14,837	13,803	15,395	15,754	15,705	16,171
Amortization of intangible assets	10,203	9,750	10,828	16,393	11,956	9,759	9,501	9,460
Total operating expenses	83,715	80,334	84,765	89,181	89,130	92,127	93,633	97,038
Income (loss) from operations	(4,192)	(879)	(3,292)	(4,766)	(2,896)	928	4,514	6,104
Other income (expense)								
Interest income	42	5	5	4	15	10	9	8
Interest expense	(162)	(163)	(385)	(151)	(137)	(173)	(155)	(157)
Other income (expense), net	(257)	(2)	(79)	(75)	(19)	(45)	(13)	(34)
Total other expense	(377)	(160)	(459)	(222)	(141)	(208)	(159)	(183)
Income (loss) before income taxes	(4,569)	(1,039)	(3,751)	(4,988)	(3,037)	720	4,355	5,921
Income tax expense	(1,013)	(1,332)	(394)	(1,438)	1,195	(626)	(1,180)	(1,172)
Net income (loss)	(5,582)	(2,371)	(4,145)	(6,426)	(1,842)	94	3,175	4,749
Cumulative preferred stock dividends	(2,477)	—	—	—	—	—	—	—
Net income (loss) attributable to common stockholder	$ (8,059)	$ (2,371)	$ (4,145)	(6,426)	$ (1,842)	$ 94	$ 3,175	4,749
Net income (loss) per share:								
Basic	$ (0.13)	$ (0.03)	$ (0.05)	$ (0.08)	$ (0.02)	$ —	$ 0.04	$ 0.06
Diluted	$ (0.13)	$ (0.03)	$ (0.05)	$ (0.08)	$ (0.02)	$ —	$ 0.04	$ 0.05
Weighted average shares outstanding[(4)(5)]:								
Basic	63,759	83,088	83,934	83,592	82,942	83,925	85,182	86,140
Diluted	63,759	83,088	83,934	83,592	82,942	86,802	88,751	88,444
[(1)] Depreciation expense included in the above line items:								
Service costs	$ 4,044	$ 4,149	$ 4,112	$ 3,770	$ 3,650	$ 3,552	$ 3,587	$ 3,663
Sales and marketing	72	115	109	127	134	106	105	108
Product development	321	438	399	308	282	271	234	238
General and administrative	572	878	683	861	898	899	906	1,025
Total depreciation expense	$ 5,009	$ 5,580	$ 5,303	$ 5,066	$ 4,964	$ 4,828	$ 4,832	$ 5,034
[(2)] Stock-based compensation included in the above line items:								
Service costs	$ 237	$ 347	$ 757	$ 711	$ 708	$ 761	$ 672	$ 679
Sales and marketing	900	1,136	1,405	1,416	1,536	1,585	1,400	1,597
Product development	1,116	1,130	1,403	1,364	1,688	2,085	1,396	1,283
General and administrative	6,674	2,807	4,190	3,263	3,459	4,118	4,578	3,823
Total stock-based compensation	$ 8,927	$ 5,420	$ 7,755	$ 6,754	$ 7,391	$ 8,549	$ 8,046	$ 7,382
[(3)] Service costs include: traffic acquisitions costs of	$ 3,190	$ 2,813	$ 3,381	$ 3,111	$ 3,379	$ 4,380	$ 5,350	$ 6,332

(4) For a description of the method used to compute our basic and diluted net loss per share, refer to note 1 in Part II, Item 6, "Selected Financial Data."

(5) In October 2010, our stockholders approved a 1-for-2 reverse stock split of our outstanding common stock, and a proportional adjustment to the existing conversion ratios for each series of preferred stock which was effected in January 2011. Accordingly, all share and per share amounts for all periods presented have been adjusted retrospectively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratio.

Seasonality of Quarterly Results

In general, Internet usage and online commerce and advertising are seasonally strongest in the fourth quarter and generally slower during the summer months. While we believe that these seasonal trends have affected and will continue to affect our quarterly results, our rapid growth in operations may have overshadowed these effects to date. We believe that our business may become more seasonal in the future.

Liquidity and Capital Resources

As of December 31, 2012, our principal sources of liquidity were our cash and cash equivalents in the amount of $102.9 million, which primarily are invested in money market funds, and our $105 million revolving credit facility with a syndicate of commercial banks. We completed our initial public offering on January 31, 2011 and received proceeds, net of underwriting discounts but before deducting offering expenses, of $81.8 million from the issuance of 5.2 million shares of common stock.

Historically, we have principally financed our operations from the issuance of stock, net cash provided by our operating activities and borrowings under our revolving credit facility. Our cash flows from operating activities are significantly affected by our cash-based investments in operations, including working capital, and corporate infrastructure to support our ability to generate revenue and conduct operations through cost of services, product development, sales and marketing and general and administrative activities. Cash used in investing activities has historically been, and is expected to be, impacted significantly by our upfront investments in content and also reflects our ongoing investments in our platform, company infrastructure and equipment for both our service offerings, the net sales and purchases of our marketable securities and more recently our investments in gTLD applications.

We intend to evolve and continuously improve our content creation and distribution platform and to create new content formats to enhance our content product offerings. In 2012 such changes included increasing our investment in video, long-form content and images, publishing content directed at international markets and in languages other than English, as well as increasing and expanding distribution of our content to our network of customer websites. As we made improvements and assessed the impact of such improvements to our content creation and distribution platform we reduced the level of our overall investment in media content in 2012 when compared to 2010 and 2011. However, based on our assessment of the results to date, we expect to increase our investment in media content during 2013 compared to 2012.

In connection with our gTLD initiative under the New gTLD Program, we incurred formation cash costs of $2.2 million and expect to incur further formation costs of between $5 million and $10 million in 2013. We also made $18.2 million of capital investment in gTLD applications in the year ended December 31, 2012 and the net amount of capital investment incurred in our pursuit of gTLD operator rights in 2013 could be substantially higher or lower as the New gTLD Program progresses.

Since our inception through December 31, 2012 we also used significant cash to make strategic acquisitions to further grow our business, including those detailed in Note 13 (Business Acquisitions) to our consolidated financial statements. We may make further acquisitions in the future.

We announced a $25 million stock repurchase plan on August 19, 2011 which was further increased on February 8, 2012 to $50 million. Under the plan, the Company is authorized to repurchase up to $50 million of its common stock from time to time in open market purchases or in negotiated transactions. During the year ended December 31, 2012, we repurchased 1.1 million shares at an average price of $8.02 per share for an aggregate amount of $8.9 million and approximately $24 million remains available under the repurchase plan at December 31, 2012. The timing and actual number of shares repurchased will depend on various factors including price, corporate and regulatory requirements, debt covenant requirements, alternative investment opportunities and other market conditions.

We entered into a credit agreement (the “Credit Agreement”) with a syndicate of commercial banks in August 2011. The Credit Agreement provides for a $105 million, five year revolving credit facility, with the right (subject to certain conditions) to increase such facility by up to $75 million in the aggregate. The syndicate of commercial banks under the Credit Agreement has no obligation to fund any increase in the size of the facility. The Credit Agreement contains customary events of default and affirmative and negative covenants and restrictions, including certain financial maintenance covenants such as a maximum total net leverage ratio and a minimum fixed charge ratio. As of December 31, 2012, no principal balance was outstanding and approximately $95 million was available for borrowing under the Credit Agreement, after deducting the face amount of outstanding standby letters of credit, and we were in compliance with all covenants.

In the future, we may utilize commercial financings, bonds, debentures, lines of credit and term loans with a syndicate of commercial banks or other bank syndicates for general corporate purposes, including acquisitions and investing in our intangible assets, platform and technologies.

We expect that our existing cash and cash equivalents, our revolving credit facility and our cash flows from operating activities will be sufficient to fund our operations for at least the next 24 months. However, we may need to raise additional funds through the issuance of equity, equity-related or debt securities or through additional credit facilities to fund our growing operations, invest in new business opportunities and make potential acquisitions. We currently have an effective shelf registration statement on file with the SEC which we may use to offer and sell debt or equity securities with an aggregate offering price not to exceed $100 million.

The following table sets forth our major sources and (uses) of cash for each period as set forth below:

	Year ended December 31,		
	2010	2011	2012
		(In thousands)	
Net cash provided by operating activities	$ 61,624	$ 85,349	$ 90,983
Net cash used in investing activities	(66,296)	(98,539)	(67,482)
Net cash provided by (used in) financing activities	(10,537)	66,936	(6,566)

Cash Flow from Operating Activities

Year ended December 31, 2012

Net cash inflows from our operating activities was $91.0 million, an increase of 7% or $5.6 million compared to the prior year. Our net income during the period was $6.2 million, which included non-cash charges of $93.4 million such as depreciation, amortization, stock-based compensation and deferred taxes. The remainder of the movement in our cash flow from operating activities was from changes in our working capital, including increases in deferred revenue, accounts payable and accrued expenses of $10.6 million, offset in part by increases in accounts receivable and deferred registration costs of $21.0 million. The increases in our deferred revenue and deferred registry fees were primarily due to growth in our Registrar service during the period. The increase in accrued expenses is reflective of increases in amounts due to certain vendors and our employees resulting from growth in our business. The increase in our accounts receivable reflects growth in advertising revenue including a higher mix of balances from brand advertising sales.

Year ended December 31, 2011

Net cash inflows from our operating activities was $85.3 million, an increase of 38% or $23.7 million compared to the prior year. Our net loss during the period was $(18.5) million, which included non-cash charges of $100.4 million such as depreciation, amortization, stock-based compensation and deferred taxes. The remainder of our sources of net cash flow from operating activities was from changes in our working capital, including increases in deferred revenue, accounts payable and accrued expenses of $14.8 million, offset in part by increases in accounts receivable, deferred registration costs and deposits with registries of $13.3 million. The increases in our deferred revenue and deferred registry fees were primarily due to growth in our Registrar service during the period. The increase in accrued expenses is reflective of increases in amounts due to certain vendors and our employees resulting from growth in our business. The increase in our accounts receivable reflects growth in advertising revenue including a higher mix of balances from brand advertising sales.

Year ended December 31, 2010

Net cash inflows from our operating activities of $61.6 million primarily resulted from improved operating performance. Our net loss during the year was $5.3 million, which included non-cash charges of $64.3 million such as depreciation, amortization, stock-based compensation and deferred taxes. The remainder of our sources of net cash inflows was from changes in our working capital, including deferred revenue and accrued expenses of $17.6 million, offset by net cash outflows from deferred registry fees and accounts receivable of $16.9 million. The increases in our deferred revenue and deferred registry fees were primarily due to growth in our Registrar service during the period. The increase in accrued expenses is reflective of significant amounts due to certain vendors and our employees. The increase in our accounts receivable reflects growth in advertising revenue.

Cash Flow from Investing Activities

Year ended December 31, 2010, 2011 and 2012

Net cash used in investing activities was $67.5 million, $98.5 million and $66.3 million during the years ended December 31, 2012, 2011 and 2010, respectively. Cash used in investing activities during the year ended December 31, 2012, 2011 and 2010 included investments in our intangible assets of $13.2 million, $49.3 million and $47.2 million, respectively, primarily comprising media content. Cash used in investing activities included investments in property and equipment of $17.7 million, $18.2 million and $21.4 million during the year ended December 31, 2012, 2011 and 2010. These expenditures included investments in servers and IT equipment, fixtures and fittings, leasehold improvements and internally developed software. Cash flows from investing activities in 2012 also included $16.2 million related to business acquisitions made in 2012 as described in Note 13 (Business Acquisitions) to our consolidated financial statements, as well as $1.3 million of deferred consideration for acquisitions made in prior years. Business acquisitions made during the year ended December 31, 2012 included Name.com for total anticipated purchase consideration of $18.0 million. Name.com was acquired to expand our registrar platform as we prepare for the historic release of new gTLDs. Business acquisitions made during the year ended December 31, 2011 included RSS Graffiti for total purchase consideration of $16.3 million and IndieClick Media Group for total purchase consideration of $13.0 million. RSS Graffiti was acquired to enhance our social media service offering and the IndieClick Media Group was acquired to expand our sales organization with particular focus on online properties in the entertainment, music, film, fashion and comedy categories. Cash invested in purchases of intangible assets and property and equipment, including internally developed software, was largely to support the growth of our business and infrastructure during these periods.

Cash Flow from Financing Activities

Year ended December 31, 2010, 2011 and 2012

Net cash provided by (used in) financing activities was $(6.6) million, $66.9 million and $(10.5) million during the years ended December 31, 2012, 2011 and 2010, respectively. During the years ended December 31, 2012 and 2011, we repurchased 1.1 million and 2.3 million shares of common stock at a cost of $8.9 million and $17.1 million, respectively, under our share repurchase plan. During the years ended December 31, 2012 and 2011 we received proceeds of $12.5 million and $7.6 million from the exercise of employee stock options and contributions from participants in our Employee Stock Purchase Plan and we incurred $9.5 million and $0.7 million of costs related to net taxes paid on employee stock options exercises and RSUs vesting. Cash provided from financing activities in the year ended December 31, 2011 included $78.5 million in net proceeds from our IPO net of issuance costs of $3.3 million paid in that period. We also incurred $1.0 million of costs related to the replacement of our previous credit facility with our Credit Agreement in 2011 which provides for a $105 million, five year revolving loan facility, with the right (subject to certain conditions) to increase such facility by up to $75 million in the aggregate. The syndicate of commercial banks under the Credit Agreement has no obligation to fund any increase in the size of the facility.

During the year ended December 31, 2010 we paid down the remaining $10.0 million outstanding under our revolving credit facility at that time.

From time to time, we expect to receive cash from the exercise of employee stock options in our common stock. Proceeds from the exercise of employee stock options will vary from period to period based upon, among other factors, fluctuations in the market value of our common stock relative to the exercise price of such stock options.

Off Balance Sheet Arrangements

As of December 31, 2012, we did not have any off balance sheet arrangements.

Capital Expenditures

For the years ended December 31, 2010, 2011 and 2012, we used $21.4 million, $18.2 million and $17.7 million in cash to fund capital expenditures to create internally developed software and purchase equipment. We currently anticipate making capital expenditures of between $20 million and $30 million during the year ending December 31, 2013.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of December 31, 2012:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(in thousands)		
Operating lease obligations	$ 26,944	$ 4,044	$ 9,040	$ 6,995	$ 6,865
Capital lease obligations	1,528	735	793	—	—
Purchase obligations[1]	466	466	—	—	—
Total contractual obligations	$ 28,938	$ 5,245	$ 9,833	$ 6,995	$ 6,865

(1) consists of minimum contractual purchase obligations for undeveloped websites with one of our partners.

Included in operating lease obligations are agreements to lease our primary office space in Santa Monica, California and other locations under various non-cancelable operating leases that expire between January 2013 and April 2019.

We have no debt obligations, other than our $105.0 million revolving credit facility for general corporate purposes, which currently has no outstanding principal borrowings. At December 31, 2012, we had outstanding standby letters of credit for approximately $9.6 million primarily associated with certain payment arrangements with domain name registries and landlords.

Indemnifications

In the normal course of business, we have made certain indemnities under which we may be required to make payments in relation to certain transactions. Those indemnities include intellectual property indemnities to our customers, indemnities to our directors and officers to the maximum extent permitted under the laws of the State of Delaware and indemnifications related to lease agreements. In addition, certain of our advertiser and distribution partner agreements contain certain indemnification provisions, which are generally consistent with those prevalent in our industry. We have not incurred significant obligations under indemnification provisions historically, and do not expect to incur significant obligations in the future. Accordingly, we have no recorded liability for any of these indemnities.

Recent Accounting Pronouncements

See Note 2 of notes to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange, inflation, and concentration of credit risk. To reduce and manage these risks, we assess the financial condition of our large advertising network providers, large direct advertisers and their agencies, large Registrar resellers and other large customers when we enter into or amend agreements with them and limit credit risk by collecting in advance when possible and setting and adjusting credit limits where we deem appropriate. In addition, our recent investment strategy has been to invest in high credit quality financial instruments, which are highly liquid, are readily convertible into cash and that mature within three months from the date of purchase.

Foreign Currency Exchange Risk

While relatively small, we have operations and generate revenue from sources outside the United States. We have foreign currency risks related to our revenue being denominated in currencies other than the U.S. dollar, principally in the Euro and British Pound Sterling and a relatively smaller percentage of our expenses being denominated in such currencies. We do not believe movements in the foreign currencies in which we transact will significantly affect future net earnings or losses. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 10% adverse change in foreign exchange rates. We believe such a change would not currently have a material impact on our results of operations. However, as our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we intend to continue to assess our approach to managing this risk.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Concentrations of Credit Risk

As of December 31, 2012, our cash and cash equivalents were maintained primarily with four major U.S. financial institutions and three foreign banks. We also maintained cash balances with three Internet payment processors. Deposits with these institutions at times exceed the federally insured limits, which potentially subject us to concentration of credit risk. Historically, we have not experienced any losses related to these balances and believe that there is minimal risk of expected future losses. However, there can be no assurance that there will not be losses on these deposits.

As of December 31, 2011 and December 31, 2012, one customer accounted for more than 10% of our consolidated accounts receivable balance:

	December 31, 2011	December 31, 2012
Google, Inc.	27%	26%

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and supplementary data required by Item 8 are contained in Item 7 and Item 15 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Definition and Limitations of Disclosure Controls and Procedures.

Our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) are designed to reasonably ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. A control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Inherent limitations to any system of disclosure controls and procedures include, but are not limited to, the possibility of human error and the circumvention or overriding of such controls by one or more persons. In addition, we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, and our system of controls may therefore not achieve its desired objectives under all possible future events.

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures at December 31, 2012, the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that, at December 31, 2012, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item will be set forth in our definitive proxy statement with respect to our 2013 annual meeting of stockholders (the "2013 Proxy Statement") to be filed with the SEC, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2012, and is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Business Conduct and Ethics is posted on our website at http://ir.demandmedia.com.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our corporate website, at the address and location specified above and, to the extent required by the listing standards of the New York Stock Exchange, by filing a Current Report on Form 8-K with the SEC, disclosing such information.

Item 11. Executive Compensation

The information required by this item will be set forth in the 2013 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be set forth in the 2013 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be set forth in the 2013 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item will be set forth in the 2013 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Annual Report on Form 10-K:

(a) Financial Statements:

The following consolidated financial statements are included in this Annual Report on Form 10-K on the pages indicated:

(b) Financial Statement Schedule:

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(c) Exhibits

EXHIBIT INDEX

Exhibit No.		Description of Exhibit
2.1		Securities Purchase Agreement, dated as of August 5, 2011, by and among Demand Media, Inc., RSS Graffiti, LLC, the holders of the membership interests of RSS Graffiti, LLC and Folie Investment Group LLC, as the Seller Representative (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on August 9, 2011)
2.2		Stock Purchase Agreement, dated as of August 8, 2011, by and among Demand Media, Inc., IndieClick Media Group, Inc, the holders of the shares of common stock of IndieClick Media Group, Inc. and Peter Luttrell, as the Seller Representative (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the SEC on August 9, 2011)
3.1		Amended and Restated Certificate of Incorporation of Demand Media, Inc., dated January 28, 2011 (incorporated by reference to Exhibit 3.01 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011)
3.2		Amended and Restated Bylaws of Demand Media, Inc. (incorporated by reference to Exhibit 3.02 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011)
4.1		Form of Demand Media, Inc. Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Company's Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on December 21, 2010)
4.2		Third Amended and Restated Stockholders' Agreement, by and among Demand Media, Inc., and the stockholders listed on Exhibit A thereto, dated March 3, 2008 (incorporated by reference to Exhibit 4.02 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
4.2A		Amendment No. 1 to Third Amended and Restated Stockholders' Agreement, dated October 21, 2010 (incorporated by reference to Exhibit 4.03 to the Company's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on October 29, 2010)
4.2B		Waiver of Registration Rights and Amendment to Stockholders' Agreement, dated August 24, 2012 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.1	†	Form of Indemnification Agreement entered into by and between Demand Media, Inc. and each of its directors and executive officers (incorporated by reference to Exhibit 10.01 to the Company's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on October 12, 2010)
10.2		Sublease, by and between Dimensional Fund Advisors LP and Demand Media, Inc., dated September 24, 2009 (incorporated by reference to Exhibit 10.02 to the Company's Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on September 16, 2010)
10.3	†	Amended and Restated Demand Media, Inc. 2006 Equity Incentive Plan, adopted April 2006, amended and restated June 26, 2008 (incorporated by reference to Exhibit 10.03 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.3A	†	First Amendment to the Amended and Restated Demand Media, Inc. 2006 Equity Incentive Plan, dated June 1, 2009 (incorporated by reference to Exhibit 10.03A to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.4	†	Form of Demand Media, Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement (incorporated by reference to Exhibit 10.06 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.5	†	Form of Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement (incorporated by reference to Exhibit 10.07 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.6	†	Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Richard Rosenblatt, dated April 19, 2007, amended April 27, 2007, amended further February 10, 2010 (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)

10.7	†	Demand Media Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement, between Demand Media, Inc. and Richard Rosenblatt, dated April 19, 2007, amended April 27, 2007, amended further February 10, 2010 (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.8	†	Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Charles Hilliard, dated June 1, 2007, amended February 9, 2010 (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.9	†	Demand Media, Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement, between Demand Media, Inc. and Charles Hilliard, dated June 1, 2007 (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.10	†	Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Michael Blend, dated May 29, 2008, amended February 10, 2010 (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.11	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Richard Rosenblatt, dated June 2009 (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.12	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Charles Hilliard, dated June 2009 (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.13	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Michael Blend, dated June 2009 (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.14	†	Demand Media, Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement, between Demand Media, Inc. and Joanne Bradford, dated March 26, 2010 (incorporated by reference to Exhibit 10.30 to the Company's Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 3, 2010)
10.15	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Joanne Bradford, dated March 26, 2010 (incorporated by reference to Exhibit 10.32 to the Company's Amendment No. 6 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 10, 2010)
10.16	†	Demand Media, Inc. 2010 Incentive Award Plan, adopted August 3, 2010 (incorporated by reference to Exhibit 10.04 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.17	†	Form of Demand Media, Inc. 2010 Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement (incorporated by reference to Exhibit 10.05 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.18	†	Form of Demand Media, Inc. 2010 Incentive Award Plan Restricted Stock Unit Award Grant Notice and Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2011)
10.19	†	Form of Demand Media, Inc. 2010 Incentive Award Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 12, 2011)
10.20	†	Demand Media, Inc. 2010 Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement, between Demand Media, Inc. and Joanne Bradford, dated August 3, 2010 (incorporated by reference to Exhibit 10.31 to the Company's Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 3, 2010)
10.21	†	Demand Media, Inc. 2010 Employee Stock Purchase Plan, dated September 27, 2010 (incorporated by reference to Exhibit 10.26 to the Company's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on October 29, 2010)
10.22	†	Employment Agreement between Demand Media, Inc. and Richard Rosenblatt, dated August 5, 2010 (incorporated by reference to Exhibit 10.08 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.23	†	Employment Agreement between Demand Media, Inc. and Charles Hilliard, dated August 5, 2010 (incorporated by reference to Exhibit 10.09 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)

10.24	†	Consulting Agreement between Demand Media, Inc. and Charles Hilliard, dated June 14, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2012)
10.24A	†	First Amendment to Consulting Agreement between Demand Media, Inc. and Charles Hilliard, dated October 2, 2012 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.25	†	Employment Agreement between Demand Media, Inc. and Joanne Bradford, dated March 15, 2010 (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.25A	†	First Amendment to Employment Agreement between Demand Media, Inc. and Joanne Bradford, dated September 3, 2010 (incorporated by reference to Exhibit 10.13A to the Company's Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 3, 2011)
10.26	†	Employment Agreement between Demand Media, Inc. and Michael Blend, dated October 1, 2012 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.27	†	Amended and Restated Employment Agreement between Demand Media, Inc. and Mel Tang, dated October 1, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.28	†	Employment Agreement between Demand Media, Inc. and Taryn Naidu, dated August 31, 2010 (filed herewith)
10.29	†	Offer Letter between Demand Media, Inc. and Michael Blend, dated August 1, 2006 (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.30	†	Executive Separation Agreement and General Release between Demand Media, Inc. and Larry Fitzgibbon, dated January 27, 2012 (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed with the SEC on February 24, 2012)
10.31		Google Services Agreement, between Google, Inc. and Demand Media, Inc., dated May 28, 2010 (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.31A		Amendment Number 3 to Google Services Agreement, entered into as of September 1, 2011, between Google, Inc. and Demand Media, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2011)
10.32		Credit Agreement, dated as of August 4, 2011, among Demand Media, Inc., as Borrower, Silicon Valley Bank, as Administrative Agent, Documentation Agent, Issuing Lender and Swingline Lender, U.S. Bank, N.A., as Syndication Agent and Lenders party thereto from time to time (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 12, 2011)
14.1		Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.01 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011)
21.1		List of subsidiaries of Demand Media, Inc. (filed herewith)
23.1		Consent of Independent Registered Public Accounting Firm (filed herewith)
31.1		Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2		Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1		Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2		Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS		XBRL Instance Document*
101.SCH		XBRL Taxonomy Extension Schema Document*
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document*

101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

† Indicates management contract or compensatory plan, contract or arrangement.

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEMAND MEDIA, INC.

By: /s/ RICHARD M. ROSENBLATT

Richard M. Rosenblatt
Chairman and Chief Executive Officer

Date: March 5, 2013

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints Richard M. Rosenblatt and Mel Tang, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, solely for the purposes of filing any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof solely for the purposes stated therein.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ RICHARD M. ROSENBLATT Richard M. Rosenblatt	Chairman and Chief Executive Officer (Principal Executive Officer)	March 5, 2013
/s/ MEL TANG Mel Tang	Chief Financial Officer (Principal Financial Officer)	March 5, 2013
/s/ MICHAEL L. ZEMETRA Michael L. Zemetra	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 5, 2013
/s/ FREDRIC W. HARMAN Fredric W. Harman	Director	March 5, 2013
/s/ VICTOR E. PARKER Victor E. Parker	Director	March 5, 2013

/s/ GAURAV BHANDARI Gaurav Bhandari	Director	March 5, 2013
/s/ JOHN A. HAWKINS John A. Hawkins	Director	March 5, 2013
/s/ JAMES R. QUANDT James R. Quandt	Director	March 5, 2013
/s/ PETER GUBER Peter Guber	Director	March 5, 2013
/s/ JOSHUA G. JAMES Joshua G. James	Director	March 5, 2013
/s/ ROBERT R. BENNETT Robert R. Bennett	Director	March 5, 2013

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Demand Media, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Demand Media, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2012). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 5, 2013

Demand Media, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2011	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 86,035	$ 102,933
Accounts receivable, net	32,665	45,517
Prepaid expenses and other current assets	8,656	6,041
Deferred registration costs	50,636	57,718
Total current assets	177,992	212,209
Deferred registration costs, less current portion	9,555	11,320
Deferred tax assets	42	—
Property and equipment, net	32,626	35,467
Intangible assets, net	111,304	91,061
Goodwill	256,060	267,034
Other assets	2,524	20,906
Total assets	$ 590,103	$ 637,997
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 10,046	$ 10,471
Accrued expenses and other current liabilities	33,932	40,489
Deferred tax liabilities	18,288	18,892
Deferred revenue	71,109	75,142
Total current liabilities	133,375	144,994
Deferred revenue, less current portion	14,802	15,965
Other liabilities	1,660	4,847
Total liabilities	149,837	165,806
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common Stock, $0.0001 par value. Authorized 500,000 shares; 85,946 shares issued and 83,605 shares outstanding at December 31, 2011 and 86,931 shares issued and 90,378 shares outstanding at December 31, 2012	10	11
Additional paid-in capital	528,032	562,692
Accumulated other comprehensive income	59	15
Treasury stock at cost, 2,341 and 3,447 shares at December 31, 2011 and December 31, 2012	(17,064)	(25,932)
Accumulated deficit	(70,771)	(64,595)
Total stockholders' equity	440,266	472,191
Total liabilities and stockholders' equity	$ 590,103	$ 637,997

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

Demand Media, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year ended December 31,		
	2010	2011	2012
Revenue	$ 252,936	$ 324,866	$ 380,578
Operating expenses			
Service costs (exclusive of amortization of intangible assets shown separately below)	131,332	155,830	181,018
Sales and marketing	24,424	37,394	46,501
Product development	26,538	38,146	40,708
General and administrative	37,371	59,451	63,025
Amortization of intangible assets	33,750	47,174	40,676
Total operating expenses	253,415	337,995	371,928
Income (loss) from operations	(479)	(13,129)	8,650
Other income (expense)			
Interest income	25	56	42
Interest expense	(688)	(861)	(622)
Other income (expense), net	(286)	(413)	(111)
Total other expense	(949)	(1,218)	(691)
Income (loss) before income taxes	(1,428)	(14,347)	7,959
Income tax expense	(3,897)	(4,177)	(1,783)
Net income (loss)	(5,325)	(18,524)	6,176
Cumulative preferred stock dividends	(33,251)	(2,477)	—
Net income (loss) attributable to common stockholders	$ (38,576)	$ (21,001)	$ 6,176
Net income (loss) per share - basic	$ (2.86)	$ (0.27)	$ 0.07
Net income (loss) per share - diluted	$ (2.86)	$ (0.27)	$ 0.07
Weighted average number of shares - basic	13,508	78,646	84,553
Weighted average number of shares - diluted	13,508	78,646	87,237

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

Demand Media, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(In thousands)

	Year ended December 31, 2010	2011	2012
Net income (loss)	$ (5,325)	$ (18,524)	$ 6,176
Other comprehensive income (loss)			
Foreign currency translation adjustment	(61)	(49)	(44)
Other comprehensive income (loss)	(61)	(49)	(44)
Comprehensive income (loss)	$ (5,386)	$ (18,573)	$ 6,132

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

Demand Media, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common stock		Additional paid-in capital amount	Treasury Stock	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' equity (deficit)
	Shares outstanding	Amount					
Balance at December 31, 2009	14,525	$ 1	$ 23,673	$ —	$ 169	$ (46,922)	$ (23,079)
Grant of restricted stock purchase rights	200	—	—	—	—	—	—
Proceeds from exercise of stock options	647	1	1,569	—	—	—	1,570
Income tax windfall benefits	—	—	34	—	—	—	34
Issuance of warrants to purchase common stock	—	—	1,880	—	—	—	1,880
Stock-based compensation expense	—	—	9,565	—	—	—	9,565
Foreign currency translation adjustment	—	—	—	—	(61)	—	(61)
Net loss	—	—	—	—	—	(5,325)	(5,325)
Comprehensive loss							(5,386)
Balance at December 31, 2010	15,372	$ 2	$ 36,721	$ —	$ 108	$ (52,247)	$ (15,416)
Exercise of stock awards, net	2,806	1	7,285	—	—	—	7,286
Stock option windfall tax benefits	—	—	126	—	—	—	126
Conversion of preferred stock and warrants to common stock	62,149	6	374,544	—	—	—	374,550
Issuance of common stock on IPO, net of issuance costs	5,175	1	76,902	—	—	—	76,903
Issuance of common stock for acquisitions	444	—	4,322	—	—	—	4,322
Repurchases of common stock to be held in treasury	(2,341)	—	—	(17,064)	—	—	(17,064)
Stock-based compensation expense	—	—	28,132	—	—	—	28,132
Foreign currency translation adjustment	—	—	—	—	(49)	—	(49)
Net loss	—	—	—	—	—	(18,524)	(18,524)
Comprehensive loss							(18,573)
Balance at December 31, 2011	83,605	$ 10	$ 528,032	$ (17,064)	$ 59	$ (70,771)	$ 440,266
Exercise of stock awards, net	4,432	1	8,352	—	—	—	8,353
Stock option windfall tax benefits	—	—	(41)	—	—	—	(41)
Termination of warrants	—	—	(533)	—	—	—	(533)
Repurchases of common stock to be held in treasury	(1,106)	—	—	(8,868)	—	—	(8,868)
Stock-based compensation expense	—	—	26,882	—	—	—	26,882
Foreign currency translation adjustment	—	—	—	—	(44)	—	(44)
Net income	—	—	—	—	—	6,176	6,176
Comprehensive income							6,132
Balance at December 31, 2012	86,931	$ 11	$ 562,692	$ (25,932)	$ 15	$ (64,595)	$ 472,191

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

Demand Media, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Year ended December 31, 2010	2011	2012
Cash flows from operating activities			
Net income (loss)	$ (5,325)	$ (18,524)	$ 6,176
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	52,016	68,132	60,334
Deferred income taxes	2,980	3,170	2,196
Stock-based compensation	9,329	28,730	31,368
Other	394	321	(479)
Change in operating assets and liabilities, net of effect of acquisitions			
Accounts receivable	(8,344)	(4,603)	(12,191)
Prepaid expenses and other current assets	124	1,501	1,048
Deferred registration costs	(8,600)	(7,882)	(8,847)
Deposits with registries	(305)	(840)	721
Other assets	545	522	74
Accounts payable	1,237	1,251	121
Accrued expenses and other liabilities	6,886	3,598	5,788
Deferred revenue	10,687	9,973	4,674
Net cash provided by operating activities	61,624	85,349	90,983
Cash flows from investing activities			
Purchases of property and equipment	(21,404)	(18,246)	(17,708)
Purchases of intangible assets	(47,192)	(49,283)	(13,237)
Payments for gTLD applications	—	—	(18,202)
Purchases of marketable securities	(975)	—	—
Proceeds from maturities and sales of marketable securities	3,275	—	—
Cash paid for acquisitions, net of cash acquired	—	(31,010)	(17,480)
Other	—	—	(855)
Net cash used in investing activities	(66,296)	(98,539)	(67,482)
Cash flows from financing activities			
Payments on line of credit	(10,000)	—	—
Principal payments on capital lease obligations	(546)	(520)	(565)
Proceeds from issuances of common stock (net of issuance costs of $3,336)	—	78,480	—
Proceeds from exercises of stock options and contributions to ESPP	1,552	7,599	12,467
Windfall tax benefit from exercises of stock options	34	126	41
Repurchases of common stock	—	(17,064)	(8,869)
Issuance costs related to debt and equity financings	(1,577)	(960)	(144)
Payments of withholding tax on net exercise of stock-based awards	—	(725)	(9,496)
Net cash provided by (used in) financing activities	(10,537)	66,936	(6,566)
Effect of foreign currency on cash and cash equivalents	(61)	(49)	(37)
Change in cash and cash equivalents	(15,270)	53,697	16,898
Cash and cash equivalents, beginning of period	47,608	32,338	86,035
Cash and cash equivalents, end of period	$ 32,338	$ 86,035	$ 102,933
Supplemental disclosure of cash flows			
Cash paid for interest	$ 358	$ 390	$ 414
Cash paid for income taxes	452	960	916

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

1. Company Background and Overview

Demand Media, Inc., together with its consolidated subsidiaries (the "Company") is a Delaware corporation headquartered in Santa Monica, California. The Company's business is focused on an Internet-based model for the professional creation of content at scale, and is comprised of two service offerings, Content & Media and Registrar.

Content & Media

The Company's Content & Media service offering is engaged in creating long-lived media content, primarily consisting of text articles and videos, and delivering it along with social media and monetization tools to the Company's owned and operated websites and network of customer websites. Content & Media services are delivered through the Company's Content & Media platform, which includes its content creation studio, social media applications and a system of monetization tools designed to match content with advertisements in a manner that is optimized for revenue yield and end-user experience.

Registrar

The Company's Registrar service offering provides domain name registration and related value added service subscriptions to third parties through its wholly owned subsidiary, eNom.

Initial Public Offering

In January 2011, the Company completed its initial public offering whereby it received proceeds, net of underwriters discounts but before deducting offering expenses, of $81,817 from the issuance of 5,175 shares of common stock. As a result of the initial public offering, all shares of the Company's convertible preferred stock converted into 61,672 shares of common stock and warrants to purchase common stock or convertible preferred stock net exercised into 477 shares of common stock.

Reverse Stock-Split

In October 2010, the Company's stockholders approved a 1-for-2 reverse stock split of its outstanding common stock, and a proportional adjustment to the existing conversion ratios for each series of preferred stock which was effected in January 2011. Accordingly, all common stock share and per share amounts for all periods presented in these consolidated financial statements and notes thereto, have been adjusted retrospectively, where applicable, to reflect this reverse split and adjustment of the preferred stock conversion ratio.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Principles of Consolidation

The consolidated financial statements include the accounts of Demand Media, Inc. and its wholly owned subsidiaries. Acquisitions are included in the Company's consolidated financial statements from the date of the acquisition. The Company's purchase accounting resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All significant intercompany transactions and balances have been eliminated in consolidation.

Investments in affiliates over which the Company has the ability to exert significant influence, but does not control and is not the primary beneficiary of, including NameJet, LLC ("NameJet"), are accounted for using the equity method of accounting. Investments in affiliates which the Company has no ability to exert significant influence are accounted for using the cost method of accounting. The Company's proportional shares of affiliate earnings or losses accounted for under the equity method of accounting, which are not material for all periods presented, are included in other income (expense) in the Company's consolidated statements of operations. Affiliated companies are not material individually or in the aggregate to the Company's financial position, results of operations or cash flows for any period presented.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue, allowance for doubtful accounts, investments in equity interests, fair value of issued and acquired stock warrants, the assigned value of acquired assets and assumed liabilities in business combinations, useful lives and impairment of property and equipment, intangible assets, goodwill and other assets, the fair value of the Company's equity-based compensation awards, and deferred income tax assets and liabilities. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents. The Company considers funds transferred from its credit card service providers but not yet deposited into its bank accounts at the balance sheet dates, as funds in transit and these amounts are recorded as unrestricted cash, since the amounts are generally settled the day after the outstanding date. Cash and cash equivalents consist primarily of checking accounts, money market accounts, money market funds, and short-term certificates of deposit.

Investments in Marketable Securities

Investments in marketable securities are classified as available for sale and are recorded at fair value, with the unrealized gains and losses if any, net of taxes, reported as a component of shareholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred.

When the Company does not intend to sell a debt security, and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company did not have any securities with other-than-temporary impairment at December 31, 2011 and 2012.

In determining whether other-than-temporary impairment exists for equity securities, management considers: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Company has determined that there has been no impairment of its equity marketable securities to date.

The cost of marketable securities sold is based upon the specific identification method and any realized gains or losses on the sale of investments are reflected as a component of interest income or expense. The unrealized gains or losses on short-term marketable securities were not significant for the years ended December 31, 2010, 2011 and 2012.

In addition, the Company classifies marketable securities as current or non-current based upon whether such assets are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

Revenue Recognition

The Company recognizes revenue when four basic criteria are met: persuasive evidence of a sales arrangement exists; performance of services has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. The Company considers persuasive evidence of a sales arrangement to be the receipt of a signed contract or insertion order. Collectability is assessed based on a number of factors, including transaction history with the customer and the credit worthiness of the customer. If it is determined that the collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. The Company records cash received in advance of revenue recognition as deferred revenue.

For arrangements with multiple deliverables, the Company allocates revenue to each deliverable if the delivered item (s) has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The fair value of the selling price for a deliverable is determined using a hierarchy of (1) Company specific objective and reliable evidence, then (2) third-party evidence, then (3) best estimate of selling price. The Company allocates any arrangement fee to each of the elements based on their relative selling prices.

The Company's revenue is principally derived from the following services:

Content & Media

Advertising Revenue. Advertising revenue is generated by performance-based Internet advertising, such as cost-per-click, or CPC, in which an advertiser pays only when a user clicks on its advertisement that is displayed on the Company's owned and operated websites and customer websites; fees generated by users viewing third-party website banners and text-link advertisements; fees generated by enabling customer leads or registrations for partners; and fees from referring users to, or from users making purchases on, sponsors' websites. In determining whether an arrangement exists, the Company ensures that a binding arrangement is in place, such as a standard insertion order or a fully executed customer-specific agreement. Obligations pursuant to the Company's advertising revenue arrangements typically include a minimum number of impressions or the satisfaction of the other performance criteria. Revenue from performance-based arrangements, including referral revenue, is recognized as the related performance criteria are met. The Company assesses whether performance criteria have been met and whether the fees are fixed or determinable based on a reconciliation of the performance criteria and an analysis of the payment terms associated with the transaction. The reconciliation of the performance criteria generally includes a comparison of third-party performance data to the contractual performance obligation and to internal or customer performance data in circumstances where that data is available.

When the Company enters into advertising revenue sharing arrangements where it acts as the primary obligor, the Company recognizes the underlying revenue on a gross basis. In determining whether to report revenue gross for the amount of fees received from the advertising networks, the Company assesses whether it maintains the principal relationship with the advertising network, whether it bears the credit risk and whether it has latitude in establishing prices. In circumstances where the customer acts as the primary obligor, the Company recognizes the underlying revenue on a net basis.

In certain cases, the Company records revenue based on available and preliminary information from third parties. Amounts collected on the related receivables may vary from reported information based upon third-party refinement of estimated and reported amounts owing that occurs typically within 30 days of the period end. For the years ended December 31, 2010, 2011 and 2012, the difference between the amounts recognized based on preliminary information and cash collected was not material.

Content Revenue. Content revenue is generated through the sale or license of media content. Revenue from the sale or perpetual license of content is recognized when the content has been delivered and the contractual performance obligations has been fulfilled. Revenue from the license of content is recognized over the period of the license as content is delivered or when other related performance criteria are fulfilled.

Subscription Services and Social Media Services. Subscription services revenue is generated through the sale of membership fees paid to access content available on certain owned and operated websites. The majority of the memberships range from 6 to 12 month terms. Subscription services revenue is recognized on a straight-line basis over the membership term.

The Company configures, hosts, and maintains its platform social media services under private-labeled versions of software for commercial customers. The Company earns revenue from its social media services through initial set-up fees, recurring management support fees, overage fees in excess of standard usage terms, and outside consulting fees. Due to the fact that social media services customers have no contractual right to take possession of the Company's private labeled software, the Company accounts for its social media services revenue as service arrangements, whereby social media services revenue is recognized when persuasive evidence of an arrangement exists, delivery of the service has occurred and no significant obligations remain, the selling price is fixed or determinable, and collectability is reasonably assured.

Social media service arrangements may contain multiple deliverables, including, but not limited to, single arrangements containing set-up fees, monthly support fees and overage billings, consulting services and advertising services. To the extent that consulting services have value on a standalone basis, the Company allocates revenue to each element in the multiple deliverable arrangement based upon their relative fair values. Fair value is determined based upon the best estimate of the selling price. To date, substantially all consulting services entered into concurrent with the original social media service arrangements are not treated as separate deliverables as such services do not have value to the customer on a standalone basis. In such cases, the arrangement is treated as a single unit of accounting with the arrangement fee recognized over the term of the arrangement on a straight-line basis. Set-up fees are recognized as revenue on a straight-line basis over the greater of the contractual or estimated customer life once monthly recurring services have commenced. The Company determines the estimated customer life based on analysis of historical attrition rates, average contractual term and renewal expectations. The Company periodically reviews the estimated customer life at least quarterly and when events or changes in circumstances, such as significant customer attrition relative to expected historical of projected future results, occur. Overage billings are recognized when delivered and at contractual rates in excess of standard usage terms.

Outside consulting services performed for customers that have value on a stand-alone basis are recognized as services are performed.

Registrar

Domain Name Registration Service Fees. Registration fees charged to third parties in connection with new, renewed, and transferred domain name registrations are recognized on a straight-line basis over the registration term, which customarily range from one to two years but can extend to ten years. Payments received in advance of the domain name registration term are included in deferred revenue in the accompanying consolidated balance sheets. The registration term and related revenue recognition commences once the Company confirms that the requested domain name has been recorded in the appropriate registry under contractual performance standards. Associated direct and incremental costs, which principally consist of registry and Internet Corporation for Assigned Names and Numbers ("ICANN") fees, are also deferred and amortized to service costs on a straight-line basis over the registration term.

The Company's wholly owned subsidiary, eNom, is an ICANN accredited registrar. Thus, the Company is the primary obligor with its reseller and retail registrant customers and is responsible for the fulfillment of its registrar services. As a result, the Company reports revenue derived from the fees it receives from resellers and retail registrant customers for registrations on a gross basis in the accompanying consolidated statements of operations. A minority of the Company's resellers have contracted with the Company to provide billing and credit card processing services to the resellers' retail customer base in addition to domain name registration services. Under these circumstances, the cash collected from these resellers' retail customer base is in excess of the fixed amount per transaction that the Company charges for domain name registration services. As such, these amounts, which are collected for the benefit of the reseller, are not recognized as revenue and are recorded as a liability until remitted to the reseller on a periodic basis.

Value Added Services. Revenue from online value added services, which includes, but is not limited to, web hosting services, email services, domain name identification protection, charges associated with alternative payment methods, and security certificates, is recognized on a straight-line basis over the period in which services are provided. Payments received in advance of services being provided are included in deferred revenue.

Auction Service Revenue. Domain name auction service revenue represents fees received from selling third-party owned domains via an online bidding process primarily through NameJet, a domain name aftermarket auction company. For names sold through the auction process that are registered on the Company's registrar platform upon sale, the Company has determined that auction revenue and related registration revenue represent separate units of accounting given the domain name has value to the customers on a standalone basis. As a result, the Company recognizes the related registration fees on a straight-line basis over the registration term. The Company recognizes the bidding portion of auction revenue upon sale, net of payments to third parties since it is acting as an agent only.

Service Costs

Service costs consist primarily of fees paid to registries and ICANN associated with domain registrations, advertising revenue recognized by the Company and shared with its customers or partners as a result of its revenue-sharing arrangements, such as traffic acquisition costs, Internet connection and co-location charges and other platform operating expenses associated with the Company's owned and operated and customer websites, including depreciation of the systems and hardware used to build and operate the Company's Content & Media platform and Registrar, personnel costs relating to in-house editorial, customer service, information technology and certain content production costs such as our multi-channel video deal with YouTube.

Registry fee expenses consist of payments to entities accredited by ICANN as the designated registry related to each top level domain ("TLD"). These payments are generally fixed dollar amounts per domain name registration period and are recognized on a straight-line basis over the registration term. The costs of renewal registration fee expenses for owned and operated undeveloped websites are also included in service costs. Amortization of the cost of website names and media content owned by the Company is included in amortization of intangible assets.

Accounts Receivable

Accounts receivable primarily consist of amounts due from:

- Third parties who provide advertising services to the Company's owned and operated websites in exchange for a share of the underlying advertising revenue. Accounts receivable from third parties are recorded as the amount of the revenue share as reported to the Company by the advertising networks and are generally due within 30 to 45 days from the month-end in which the invoice is generated. Certain accounts receivable from these parties are billed quarterly and are due within 45 days from the quarter-end in which the invoice is generated, and are non-interest bearing;

- Social media services customers and include (i) account set-up fees, which are generally billed and collected once set-up services are completed, (ii) monthly recurring services, which are billed in advance of services on a quarterly or monthly basis, (iii) account overages, which are billed when incurred and contractually due, and (iv) consulting services, which are generally billed in the same manner as set-up fees. Accounts receivable from social media customers are recorded at the invoiced amount, are generally due within 30 days and are non-interest bearing;

- Direct advertisers who engage the Company to deliver branded advertising impressions. Accounts receivable from direct advertisers are recorded at negotiated advertising rates (customarily based on advertising impressions) and as the related advertising is delivered over the Company's owned and operated websites. Direct advertising accounts receivable are generally due within 30 to 60 days from the date the advertising services are delivered and billed;

- Customers who syndicate the Company's content over their websites in exchange for a share of related advertising revenue. Accounts receivable from these customers are recorded at the revenue share as reported by the underlying customers and are generally due within 30 to 45 days; and

- certain domain reseller customers of our Registrar service offering.

The Company's Registrar services are primarily conducted on a prepaid basis or through credit card or Internet payments processed at the time a transaction is consummated, and as such, the Company does not carry significant receivables related to these business activities.

Receivables from registries represent refundable amounts for registrations that were placed on auto-renew status by the registries, but were not explicitly renewed by a registrant as of the balance sheet dates. Registry services accounts receivable is recorded at the amount of registration fees paid by the Company to a registry for all registrations placed on auto-renew status. Subsequent to the lapse of a prior registration period, a registrant either renews the applicable domain name with the Company, which results in the application of the refundable amount to a consummated transaction, or the registrant lets the domain name registration expire, which results in a refund of the applicable amount from a registry to the Company.

The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables from its customers based on its best estimate of the amount of probable losses in existing accounts receivable. The Company determines the allowance based on analysis of historical bad debts, advertiser concentrations, advertiser credit-worthiness and current economic trends. In addition, past due balances over 90 days and specific other balances are reviewed individually for collectability at least quarterly.

The allowance for doubtful account activity for the years ended December 31, 2010, 2011 and 2012 is as follows:

	Balance at beginning of period	Charged to costs and expenses	Write-offs, net of recoveries	Balance at end of period
Allowance for doubtful accounts:				
December 31, 2010	$ 392	$ 144	$ (136)	$ 400
December 31, 2011	400	125	(106)	419
December 31, 2012	419	75	(125)	369

Deferred Revenue and Deferred Registration Costs

Deferred revenue consists substantially of amounts received from customers in advance of the Company’s performance for domain name registration services, subscription services for premium media content, social media services and online value added services. Deferred revenue is recognized as revenue on a systematic basis that is proportionate to the unexpired term of the related domain name registration, media subscription as services are rendered, over customer useful life, or online value added service period.

Deferred registration costs represent incremental direct cost paid in advance to registries, ICANN, and other third parties for domain name registrations and are recorded as a deferred cost on the balance sheets. Deferred registration costs are amortized to expense on a straight-line basis concurrently with the recognition of the related domain name registration revenue and are included in service costs.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Computer equipment is amortized over two to five years, software is amortized over two to three years, and furniture and fixtures are amortized over seven to ten years. Leasehold improvements are amortized straight-line over the shorter of the remaining lease term or the estimated useful lives of the improvements ranging from one to ten years. Upon the sale or retirement of property or equipment, the cost and related accumulated depreciation or amortization is removed from the Company's financial statements with the resulting gain or loss reflected in the Company's results of operations. Repairs and maintenance costs are expensed as incurred. In the event that property and equipment is no longer in use, the Company will record a loss on disposal of the property and equipment, which is computed as difference between the sales price, if any, and the net remaining value (gross amount of property and equipment less accumulated depreciation expense) of the related equipment at the date of disposal.

Intangibles—Undeveloped Websites

The Company capitalizes costs incurred to acquire and to initially register its owned and operated undeveloped websites (i.e. Uniform Resource Locators). The Company amortizes these costs over the expected useful life of the underlying undeveloped websites on a straight-line basis. The expected useful lives of the website names range from 12 months to 84 months. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience with domain names of similar quality and value.

In order to maintain the rights to each undeveloped website acquired, the Company pays periodic renewal registration fees, which generally cover a minimum period of twelve months. The Company records renewal registration fees of website name intangible assets in deferred registration costs and amortizes the costs over the renewal registration period, which is included in service costs.

Intangibles—Media Content

The Company capitalizes the direct costs incurred to acquire its media content that is determined to embody a probable future economic benefit. Costs are recognized as finite lived intangible assets based on their acquisition cost to the Company. Direct content costs primarily represent amounts paid to unrelated third parties for completed content units, and to a lesser extent, specifically identifiable internal direct labor costs incurred to enhance the value of specific content units acquired prior to their publication. Internal costs not directly attributable to the enhancement of an individual content unit acquired are expensed as incurred. All costs incurred to deploy and publish content are expensed as incurred, including the costs incurred for the ongoing maintenance of the Company's websites in which the Company's content is published.

Capitalized media content is amortized on a straight-line basis over its useful life, which is typically five years, representing the Company's estimate of the pattern that the underlying economic benefits are expected to be realized and based on its estimates of the projected cash flows from advertising revenue expected to be generated by the deployment of its content. These estimates are based on the Company's plans and projections, comparison of the economic returns generated by its content of comparable quality and an analysis of historical cash flows generated by that content to date. Amortization of media content is included in amortization of intangible assets in the accompanying statement of operations and the acquisition costs are included in purchases of intangible assets within cash flows from investing activities in the Consolidated Statements of Cash Flows.

Intangibles—Acquired in Business Combinations

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocates the purchase price of each acquired business to its respective net tangible and intangible assets. Acquired intangible assets include: trade names, non-compete agreements, owned website names, customer relationships, technology, media content, and content publisher relationships. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight line method which approximates the pattern in which the economic benefits are consumed.

Long-lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives for impairment when events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Such trigger events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, significant adverse change in legal factors or in the business climate, including those resulting from technology advancements in the industry, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows we expect to generate from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. Through December 31, 2012, the Company has identified no such impairment loss. Assets to be disposed of would be separately presented on the balance sheets and reported at the lower of their carrying amount or fair value less costs to sell, and would no longer be depreciated or amortized.

Google, the largest provider of search engine referrals to the majority of the Company's websites, regularly deploys changes to its search engine algorithms, some of which have led the Company to experience fluctuations in the total number of Google search referrals to its owned and operated and network of customer websites. In 2011, the overall impact of these changes on the Company's owned and operated websites was negative primarily due to a decline in traffic to eHow.com, the Company's largest website. During 2011 and 2012, and in response to the changes in search engine algorithms in 2011, the Company performed an evaluation of its existing content library to identify potential improvements in its content creation and distribution platform. As a result of this evaluation, the Company elected to remove certain content assets from service, resulting in $5,898 of accelerated amortization expense in 2011 and $2,055 in 2012. Any further discretionary actions may result in additional accelerated amortization in the periods the actions occur.

We intend to evolve and continuously improve our content creation and distribution platform, by creating new content formats to meet rapidly changing consumer demand. Such changes may include increasing our investment in short-form articles on our owned and operated sites including eHow.com, growth in content published on our network of customer websites and creation of new content formats, including paid content, designed to further diversify our content offering.

There can be no assurance that these changes or any future changes that may be implemented by the Company, by search engines to their algorithms and search methodologies, or by consumers in their web usage habits might not adversely impact the carrying value, estimated useful life or intended use of our long-lived assets. The Company will continue to monitor these changes as well as any future changes and emerging trends in search engine algorithms and methodologies, including the resulting impact that these changes may have on future operating results, the economic performance of the Company's long-lived assets and in its assessment as to whether significant changes in circumstances might provide an indication of potential impairment of the carrying value of its long-lived assets including its media content and goodwill arising from acquisitions.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is tested for impairment annually during the fourth quarter of the Company's fiscal year or when events or circumstances change that would indicate that goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends or significant underperformance relative to expected historical or projected future results of operations.

Goodwill is tested for impairment at the reporting unit level, which is one level below or the same as an operating segment. As of December 31, 2012, the Company determined that it has three reporting units. When testing goodwill for impairment, the Company first performs a qualitative assessment whether it is necessary to perform step one of a two-step annual goodwill impairment test for each reporting unit. The Company is required to perform step one only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value. Should this be the case, the first step of the two-step process is to identify whether a potential impairment exists by comparing the estimated fair values of the Company's reporting units with their respective book values, including goodwill. If the estimated fair value of the reporting unit exceeds book value, goodwill is considered not to be impaired and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, then the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss, if any. The amount of the impairment loss is the excess of the carrying amount of the goodwill over its implied fair value. The estimate of implied fair value of goodwill is primarily based on an estimate of the discounted cash flows expected to result from that reporting unit but may require valuations of certain internally generated and unrecognized intangible assets such as the Company's software, technology, patents and trademarks. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

For 2012, in accordance with amended FASB guidance for goodwill impairment testing, the Company performed a qualitative assessment for its reporting units which management estimates each have fair values significantly in excess of their respective carrying values. For each of its reporting units, the Company considered the relative impact of factors that are specific to the reporting unit as well as industry and macroeconomic factors. The reporting unit specific factors that were considered included financial performance and changes to the reporting units' carrying amounts since the most recent impairment tests. For each reporting unit, the Company considered assumptions about sales, operating margins, and growth rates which are based on its forecasts, business plans, economic projections, anticipated future cash flows and marketplace data. The Company also determined that the impact of macroeconomic factors on the discount rates and growth rates used for the most recent impairment tests would not significantly affect the fair value of the reporting units. Based on this qualitative assessment and considering the aggregation of these factors, the Company concluded that for each of its three reporting units, it is more likely than not that the fair value of each reporting unit exceeds its carrying amount and that therefore it was unnecessary to perform the two-step impairment test.

Operating Leases

For operating leases that include rent free periods or escalation clauses over the term of the lease, the Company recognizes rent expense on a straight-line basis and the difference between expense and amounts paid are recorded as deferred rent in current and long-term liabilities.

Advertising Costs

Advertising costs are expensed as incurred and generally consist of Internet based advertising, sponsorships, and trade shows. Such costs are included in sales and marketing expense in Company's consolidated statements of operations. Advertising expense was $2,699, $2,697 and $2,808 for the years ended December 31, 2010, 2011 and 2012, respectively.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period, on a straight-line basis. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options that do not include market conditions. Stock-based awards are comprised principally of stock options, restricted stock purchase rights ("RSPR"), restricted stock awards ("RSA") and restricted stock units ("RSU").

Under the Company's Employee Stock Purchase Plan (the "ESPP"), eligible officers and employees may purchase a limited amount of our common stock at a discount to the market price in accordance with the terms of the plan as described in Note 11 - Share-based Compensation Plans and Awards. The Company uses the Black-Scholes option pricing model to determine the fair value of the ESPP awards granted which is recognized straight-line over the total offering period.

Some equity awards granted by the Company contain certain performance and/or market conditions. The Company recognizes compensation cost for awards with performance conditions based upon the probability of that performance condition being met, net of an estimate of pre-vesting forfeitures. Awards granted with performance and/or market conditions are amortized using the graded vesting method.

The effect of a market condition is reflected in the award's fair value on the grant date. The Company uses a Monte Carlo simulation model or binomial lattice model to determine the grant date fair value of awards with market conditions.

Compensation cost for an award that has a market condition is recognized as the requisite service period is fulfilled, even if the market condition is never satisfied.

Stock-based awards issued to non-employees are accounted for at fair value determined using the Black-Scholes option-pricing model. Management believes that the fair value of the stock options is more reliably measured than the fair value of the services received. The fair value of each non-employee stock-based compensation award is re-measured each period until a commitment date is reached, which is generally the vesting date.

Stock Repurchases

Under a stock repurchase plan, shares repurchased by the Company are accounted for when the transaction is settled. Repurchased shares held for future issuance are classified as treasury stock. Shares formally or constructively retired are deducted from common stock at par value and from additional paid in capital for the excess over par value. If additional paid in capital has been exhausted, the excess over par value is deducted from retained earnings. Direct costs incurred to acquire the shares are included in the total cost of the repurchased shares.

Product Development and Software Development Costs

Product development expenses consist primarily of expenses incurred in research and development, software engineering and web design activities and related personnel compensation to create, enhance and deploy our software infrastructure. Product and software development costs, other than software development costs qualifying for capitalization, are expensed as incurred. Costs of computer software developed or obtained for internal use that are incurred in the preliminary project and post implementation stages are expensed as incurred. Certain costs incurred during the application and development stage, which include compensation and related expenses, costs of computer hardware and software, and costs incurred in developing additional features and functionality of the services, are capitalized. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized costs are generally amortized using the straight-line method over a three year estimated useful life, beginning in the period in which the software is ready for its intended use. Unamortized amounts are included in property and equipment, net in the accompanying consolidated balance sheets. The net book value of capitalized software development costs is $15,837 (net of $18,332 accumulated amortization) and $15,292 (net of $24,491 accumulated amortization) as of December 31, 2011 and 2012, respectively.

Preferred Stock Warrants

Preferred stock warrants on shares subject to mandatory or contingent redemption are classified as liabilities as the underlying preferred stock contains provisions that allow the holders the right to receive cash in the event of a deemed liquidation. Preferred stock warrants are recorded at fair value and are remeasured each reporting period, with changes in fair value recorded in other income (expense) in the accompanying statements of operations.

Income Taxes

Deferred income taxes are recognized for differences between financial reporting and tax bases of assets and liabilities at the enacted statutory tax rates in effect for the years in which the temporary differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the realizability of deferred tax assets and recognizes a valuation allowance for its deferred tax assets when it is more likely than not that a future benefit on such deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in its income tax (benefit) provision in the accompanying statements of operations.

Net Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Net loss attributable to common stockholders is increased for cumulative preferred stock dividends earned during the period. Diluted loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average common shares outstanding plus potentially dilutive common shares. Because the Company reported net losses for the year ended December 31, 2010 and 2011, all potentially dilutive common shares comprising of stock options, RSPRs, RSUs, stock from the employee stock purchase plan, warrants and convertible preferred stock are considered antidilutive for those periods.

RSPRs and RSUs and other restricted awards are considered outstanding common shares and included in the computation of basic earnings per share as of the date that all necessary conditions of vesting are satisfied. RSPRs and RSUs are excluded from the dilutive earnings per share calculation when their impact is antidilutive. Prior to satisfaction of all conditions of vesting, unvested RSPRs are considered contingently issuable shares and are excluded from weighted average common shares outstanding.

Foreign Currency Transactions

Foreign currency transaction gains and losses are charged or credited to earnings as incurred. For the years ended December 31, 2010, 2011 and 2012, foreign currency transaction gains and losses that are included in other income (expense) in the accompanying statements of operations were not material.

Foreign Currency Translation

The financial statements of foreign subsidiaries are translated into U.S. dollars. Where the functional currency of a foreign subsidiary is its local currency, balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the period. Gains and losses resulting from translation are accumulated in accumulated other comprehensive earnings within stockholders' equity.

Fair Value of Financial Instruments

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company measures its financial assets and liabilities in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1—valuations for assets and liabilities traded in active exchange markets, or interest in open-end mutual funds that allow a company to sell its ownership interest back at net asset value on a daily basis. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities or funds.

- Level 2—valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U.S. Treasury, U.S. government and agency debt securities, and certain corporate obligations.

  Valuations are usually obtained from third-party pricing services for identical or comparable assets or liabilities.

- Level 3—valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The Company chose not to elect the fair value option for its financial assets and liabilities that had not been previously carried at fair value. Therefore, material financial assets and liabilities not carried at fair value, such as trade accounts receivable and payables, are reported at their carrying values.

The carrying amounts of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, receivables from domain name registries, registry deposits, accounts payable, accrued liabilities and customer deposits approximate fair value because of their short maturities. The Company’s investments in marketable securities are recorded at fair value. Prior to the net exercise of the Series C preferred stock warrants concurrent with the Company’s initial public offering, the Series C preferred stock warrants were recorded at fair value with changes in fair value recorded in other income (expense), net. Certain assets, including equity investments, investments held at cost, goodwill and intangible assets are also subject to measurement at fair value on a nonrecurring basis, if they are deemed to be impaired as the result of an impairment review. For the year ended December 2010, 2011 and 2012, no impairments were recorded on those assets required to be measured at fair value on a nonrecurring basis.

Financial assets and liabilities carried at fair value on a recurring basis were as follows:

December 31, 2011

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents[1]	$ 54,701	$ 15,447	$ —	$ 70,148
Total assets at fair value	$ 54,701	$ 15,447	$ —	$ 70,148

(1) comprises money market funds which are included in Cash and cash equivalents in the accompanying balance sheet

December 31, 2012

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents[1]	$ 29,129	$ 7,940	$ —	$ 37,069
Total assets at fair value	$ 29,129	$ 7,940	$ —	$ 37,069

(1) comprises money market funds which are included in Cash and cash equivalents in the accompanying balance sheet

For financial assets that utilize Level 1 and Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including quoted market prices (Level 1 inputs) or inputs that are derived principally from or corroborated by observable market data (Level 2 inputs). The fair value of the Company's Series C preferred stock warrants was classified as a Level 3 instrument, as it uses unobservable inputs and requires management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such financial instruments.

The following table presents a reconciliation of the Company's liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010, 2011 and 2012:

	Series C Preferred Stock Warrants
Balance at December 31, 2009	225
Change in fair value included in other income (expense)	252
Balance at December 31, 2010	477
Change in fair value included in other income (expense)	319
Conversion into common stock	(796)
Balance at December 31, 2011 and 2012	$ —

Recent Accounting Pronouncements

Indefinite-lived intangible assets impairment

In July 2012, the FASB issued an update to the authoritative guidance related to testing indefinite-lived intangible assets for impairment. This update gives an entity the option to first consider certain qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test. This update is effective for the indefinite-lived intangible asset impairment test performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance does not have a material impact on the Company's consolidated financial statements.

Balance sheet offsetting disclosures

In December 2011, the FASB issued authoritative guidance on the disclosure of financial instruments and derivative instruments that are either offset or subject to an enforceable master netting arrangement or similar agreement and should be applied retrospectively for all comparative periods presented for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The adoption of this guidance does not have a material impact on the Company's consolidated financial statements.

Reclassification of accumulated other comprehensive loss

In February 2013, the FASB issued an accounting standards update requiring new disclosures about reclassifications from accumulated other comprehensive loss to net income. These disclosures may be presented on the face of the statements or in the notes to the consolidated financial statements. The standards update is effective for fiscal years beginning after December 15, 2012. The adoption of this guidance does not have a material impact on the Company's consolidated financial statements.

3. Property and Equipment

Property and equipment consisted of the following:

	December 31, 2011	December 31, 2012
Computers and other related equipment	$ 33,680	$ 42,940
Purchased and internally developed software	45,074	54,657
Furniture and fixtures	2,380	2,623
Leasehold improvements	3,368	3,552
	84,502	103,772
Less accumulated depreciation	(51,876)	(68,305)
Property and equipment, net	$ 32,626	$ 35,467

At December 31, 2011 and 2012, total software under capital lease and vendor financing obligations consisted of $1,650 and $3,772 with accumulated amortization of $1,590 and $2,287, respectively. Amortization expense for assets under capital lease and vendor financing obligations for the years ended December 31, 2010, 2011 and 2012 was $545, $547 and $697, respectively.

Depreciation and amortization expense, which includes losses on disposal of property and equipment of approximately $663, $965 and $338 for the years ended December 31, 2010, 2011 and 2012, respectively, by classification is shown below:

	Year ended December 31,		
	2010	2011	2012
Service costs	$ 14,783	$ 16,075	$ 14,452
Sales and marketing	187	423	453
Product development	1,346	1,466	1,025
General and administrative	1,950	2,994	3,728
Total depreciation and amortization	$ 18,266	$ 20,958	$ 19,658

4. Intangible Assets

Intangible assets consist of the following:

	December 31, 2011			
	Gross carrying amount	Accumulated amortization	Net	Weighted average useful life
Owned website names	$ 43,343	$ (35,674)	$ 7,669	3.8
Customer relationships	27,325	(20,257)	7,068	5.8
Media content	130,981	(56,847)	74,134	5.1
Technology	38,694	(24,055)	14,639	5.8
Non-compete agreements	14,806	(14,513)	293	3.3
Trade names	11,294	(4,652)	6,642	14.5
Content publisher relationships	2,092	(1,233)	859	5.0
	$ 268,535	$ (157,231)	$ 111,304	5.3

	December 31, 2012			
	Gross carrying amount	Accumulated amortization	Net	Weighted average useful life
Owned website names	$ 42,840	$ (36,489)	$ 6,351	3.7
Customer relationships	32,109	(23,151)	8,958	5.5
Media content	136,495	(78,223)	58,272	5.1
Technology	38,768	(28,556)	10,212	6.0
Non-compete agreements	14,986	(14,685)	301	3.3
Trade names	11,999	(5,654)	6,345	13.7
Content publisher relationships	2,092	(1,470)	622	5.0
	$ 279,289	$ (188,228)	$ 91,061	5.3

Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives.

Amortization expense by classification for years ended December 31, 2010, 2011 and 2012 is shown below:

	Year ended December 31,		
	2010	2011	2012
Service costs	$ 22,759	$ 38,715	$ 32,792
Sales and marketing	3,303	3,069	2,635
Product development	5,257	4,343	4,272
General and administrative	2,431	1,047	977
Total amortization	$ 33,750	$ 47,174	$ 40,676

Service costs amortization for 2011 and 2012 includes an accelerated amortization charge of $5,898 and $2,055, respectively, as a result of the Company removing certain content assets from service.

Based upon the current amount of intangible assets subject to amortization, the estimated amortization expense for the next five years as of December 31, 2012 is as follows: $33,191 in 2013, $27,291 in 2014, $17,465 in 2015, $7,060 in 2016, $1,806 in 2017 and $893 thereafter including amortization expense related to media content of $23,219 in 2013, $20,469 in 2014, $14,238 in 2015, $5,195 in 2016, $1,320 in 2017 and $422 thereafter.

5. Goodwill

The following table presents the changes in the Company's goodwill balance:

Balance at December 31, 2010	$	224,920
Goodwill arising from acquisitions (Note-13)		31,140
Balance at December 31, 2011		256,060
Goodwill arising from acquisitions (Note-13)		10,997
Other		(23)
Balance at December 31, 2012	$	267,034

Goodwill in 2012 arose from the acquisition of Name.com as detailed in Note 13 - Business Acquisitions.

Goodwill in 2011 arose from four acquisitions completed in that year as detailed in Note 13 - Business Acquisitions.

The Company's most recent annual impairment analysis was performed in the fourth quarter of the year ended December 31, 2012 and indicated that the fair value of each of its three reporting units significantly exceeded the carrying amount of the respective reporting unit's book value of goodwill at that time.

6. Other Balance Sheets Items

Accounts receivable consisted of the following:

	December 31, 2011		December 31, 2012	
Accounts receivable—trade	$	29,695	$	40,995
Receivables from registries		2,970		4,522
Accounts receivable, net	$	32,665	$	45,517

Accrued expenses and other liabilities consisted of the following:

	December 31, 2011		December 31, 2012	
Accrued payroll and related items	$	10,562	$	12,196
Domain owners' royalties payable		1,336		1,996
Commissions payable		2,894		3,184
Customer deposits		7,898		7,029
Other		11,242		16,084
Accrued expenses and other liabilities	$	33,932	$	40,489

7. Commitments and Contingencies

Leases

The Company conducts its operations utilizing leased office facilities in various locations and leases certain equipment under non-cancellable operating and capital leases. The Company's leases expire between January 2013 and December 2019.

The following is a schedule of future minimum lease payments under operating and capital leases as of December 31, 2012:

	Operating Leases	Capital Leases
Year ending December 31,		
2013	$ 4,044	$ 735
2014	4,525	732
2015	4,515	61
2016	3,857	—
2017	3,138	—
Thereafter	6,865	—
Total minimum lease payments	$ 26,944	1,528
Less interest expense		(63)
Capital lease obligation		$ 1,465

Rent expense incurred by the Company was $4,141, $4,914 and $4,957, respectively, for years ended December 31, 2010, 2011 and 2012. As of December 31, 2011 and 2012, accrued expenses and other current liabilities include a deferred rent liability of $1,208 and $913, respectively and $876 and $605 was included in other long-term liabilities as at December 31, 2011 and 2012, respectively.

Letters of Credit

At December 31, 2012, the Company had outstanding standby letters of credit issued via the administrative agent under the Company's revolving credit facility of approximately $9,561 primarily associated with certain payment arrangements with domain name registries as well as security agreements related to real estate leases.

Revolving Line of Credit Agreements

The Company entered into a credit agreement (the "Credit Agreement") with a syndicate of commercial banks. The Credit Agreement provides for a $105,000, five year revolving credit facility, with the right (subject to certain conditions) to increase such facility by up to $75,000 in the aggregate. The syndicate of commercial banks under the Credit Agreement have no obligation to fund any increase in the size of the facility.

The collateral for the Credit Agreement consists of substantially all tangible and intangible assets of the Company, under perfected security interests, including pledges of the common stock of all domestic subsidiaries and a portion of the equity of the foreign subsidiaries of the Company. The Credit Agreement contains customary events of default and affirmative and negative covenants and restrictions, including certain financial covenants such as a minimum fixed charge ratio and a maximum total net leverage ratio. As of December 31, 2011 and 2012, the Company was in compliance with these covenants, and those under the previous credit facility.

In addition, the Credit Agreement contains covenants restricting the Company's ability to, among other things, incur additional debt or incur or permit to exist certain liens; pay dividends or make other distributions or payments on capital stock; make certain investments and acquisitions; enter into transactions with affiliates; transfer or sell substantially all of the Company's assets.

At December 31, 2011 and 2012, the aggregate borrowings available under the Credit Agreement in place at that date was approximately $98,000 and $95,400. At December 31, 2011 and 2012, no amounts were outstanding under the Credit Agreements.

Total debt issuance costs associated with the Credit Agreement were $1,035, which are being amortized as interest expense on a straight-line basis over the five year term of the Credit Agreement. For the years ended December 31, 2010, 2011 and 2012, $386, $568 and $207 respectively, of debt issuance costs were amortized and included in interest expense. Interest expense for the year ended December 31, 2011 includes $240 relating to the acceleration of unamortized debt issuance costs from the credit agreement replaced during that year. At December 31, 2011 and 2012, net debt issuance costs of $951 and $744 are included in other current assets and other assets, non-current, respectively.

Litigation

In April 2011, the Company and eleven other defendants were named in a patent infringement lawsuit filed in the U.S. District Court, Eastern District of Texas. The plaintiff filed and served a complaint making several claims related to a method for displaying advertising on the Internet. In May 2011, the Company filed its response to the complaint, denying all liability. The Company is currently engaged in settlement discussions with the plaintiff to resolve this matter. Until this matter is resolved, the Company intends to vigorously defend its position in this matter.

In addition, from time to time the Company is a party to other various litigation matters incidental to the conduct of its business. There is no pending or threatened legal proceeding to which Company is a party that, in our belief, is likely to have a material adverse effect on the Company's future financial results.

Taxes

From time to time, various federal, state and other jurisdictional tax authorities undertake review of the Company and its filings. In evaluating the exposure associated with various tax filing positions, the Company accrues charges for possible exposures. The Company believes any adjustments that may ultimately be required as a result of any of these reviews will not be material to its consolidated financial statements.

Domain Name Agreement

On April 1, 2011, the Company amended its existing agreement with a customer to provide domain name registration services and manage certain domain names owned and operated by the customer over a twenty seven month term ending June 30, 2013 (the "Amended Domain Agreement"). In conjunction with the Amended Domain Agreement, the Company is committed to purchase at approximately $233 of expired domain names every calendar quarter over the remaining term of the agreement. The contract can be terminated by either the Company or the counter party within 60 days prior to the end of June 30, 2013 or at each annual renewal period thereafter.

Indemnifications

In its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. Those indemnities include intellectual property indemnities to the Company's customers, indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware and indemnifications related to the Company's lease agreements. In addition, the Company's advertiser and distribution partner agreements contain certain indemnification provisions which are generally consistent with those prevalent in the Company's industry. The Company has not incurred significant obligations under indemnification provisions historically and does not expect to incur significant obligations in the future. Accordingly, the Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying balance sheets.

8. Income Taxes

Income/(loss) before income taxes for the years ended December 31, 2010, 2011 and 2012 consisted of the following:

	2010	2011	2012
Domestic	$ (1,530)	$ (13,820)	$ 9,405
Foreign	102	(527)	(1,446)
Income (loss) before income taxes	$ (1,428)	$ (14,347)	$ 7,959

The income tax benefit (expense) consists of the following:

	2010	2011	2012
Current (expense) benefit			
Federal	$ —	$ 10	$ —
State	(709)	(1,011)	314
International	(208)	(6)	101
Deferred (expense) benefit			
Federal	(2,910)	(2,551)	(3,320)
State	(74)	(640)	1,141
International	4	21	(19)
Total income tax benefit (expense)	$ (3,897)	$ (4,177)	$ (1,783)

The reconciliation of the federal statutory income tax rate of 35% to the Company's effective income tax rate is as follows:

	2010	2011	2012
Expected income tax benefit (expense) at U.S. statutory rate	$ 489	$ 5,022	$ (2,786)
Difference between U.S. and foreign taxes	(126)	(124)	(474)
State tax (expense) benefit, net of federal taxes	(433)	825	(312)
Non-deductible stock-based compensation	(748)	(295)	(592)
Meals and entertainment	(178)	(260)	(286)
Non-deductible officer compensation	—	—	(402)
State rate changes	(350)	(787)	1,487
Indirect federal impact of state deferred taxes	274	(9)	(218)
Valuation allowance	(2,985)	(8,241)	1,538
Other	160	(308)	262
Total income tax expense	$ (3,897)	$ (4,177)	$ (1,783)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2012 are presented below:

		2011		2012
Deferred tax assets				
Accrued liabilities not currently deductible	$	5,648	$	5,623
Intangible assets—excess of financial statement amortization over tax basis		12,923		13,192
Indirect federal impact of deferred state taxes		314		126
Deferred revenue		6,507		5,735
Net operating losses		19,448		21,527
Stock-based compensation		12,083		11,359
Other		601		265
		57,524		57,827
Deferred tax liabilities				
Deferred registration costs		(19,410)		(20,582)
Prepaid expenses		(2,037)		(1,797)
Goodwill not amortized for financial reporting		(18,293)		(21,098)
Intangible assets—excess of financial statement basis over tax basis		(8,243)		(5,483)
Property and equipment		(5,125)		(8,186)
		(53,108)		(57,146)
Valuation allowance		(22,662)		(21,124)
Net deferred tax liabilities	$	(18,246)	$	(20,443)
Current	$	(18,288)	$	(18,892)
Non-current		42		(1,551)
	$	(18,246)	$	(20,443)

The Company had federal net operating loss ("NOL") carryforwards of approximately $54,000 and $66,000 as of December 31, 2011 and 2012, respectively, which expire between 2020 and 2032. In addition, as of December 31, 2011 and 2012 the Company had state NOL carryforwards of approximately $12,000 and $13,000, which expire between 2013 and 2032.

Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, provide for annual limitations on the utilization of net operating loss and credit carryforwards if the Company were to undergo an ownership change, as defined in Section 382. Changes in the Company's equity structure and the acquisitions by the Company of eNom, Trails.com, Maps a La Carte, Pagewise, Pluck, and Indieclick resulted in such an ownership change. Currently, the Company does not expect the utilization of its net operating loss and tax credit carry-forwards in the near term to be materially affected as no significant limitations are expected to be placed on these carry-forwards as a result of its previous ownership changes.

The Company reduces the deferred tax asset resulting from future tax benefits by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of these deferred taxes will not be realized. The Company has determined it is more likely than not that it will not realize the benefit of all its deferred tax assets and accordingly a valuation allowance of $22,662 and $21,124 against its deferred taxes was required at December 31, 2011 and 2012, respectively. The change in the valuation allowance for the years ended December 31, 2010, 2011 and 2012 was an increase of $2,985, $8,241 and a decrease of $(1,538) respectively. The valuation allowance is required as a result of the timing of the reversal of deferred tax liabilities associated with tax deductible goodwill which is not certain and thus not available to assure the realization of deferred tax assets. After consideration of these limitations associated with deferred tax liabilities, the Company has deferred tax assets in excess of deferred tax liabilities at December 31, 2012. As the Company has no sustained history of generating book income, the ultimate future realization of these excess deferred tax assets is not more likely than not and thus subject to a valuation allowance.

Accounting standards related to stock-based compensation exclude tax attributes related to the exercise of employee stock options from being realized in the financial statements until they result in a decrease to taxes payable. Therefore, we have not included unrealized stock option tax attributes in our deferred tax assets. Cumulative tax attributes excluded through 2012 were $3,492. The benefit of these deferred tax assets will be recorded to equity when they reduce taxes payable.

The Company has not provided for U.S. federal income and foreign withholding taxes on $573 of cumulative undistributed earnings of various non-U.S. subsidiaries. Such earnings are intended to be reinvested in the non-

U.S. subsidiaries for an indefinite period of time. It is not practicable to compute the amount of incremental taxes that would result from the repatriation of those earnings.

The Company is subject to the accounting guidance for uncertain income tax positions. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. The Company acquired an $85 uncertain tax position as a result of a business acquisition during 2011.

The Company's policy for recording interest and penalties associated with audits and uncertain tax positions is to record such items as a component of income tax expense, and amounts recognized to date are insignificant. No uncertain income tax positions were recorded during 2011 or 2012 other than one related to a business acquisition during the year, and the Company does not expect its uncertain tax position to change during the next twelve months.

During 2011 and 2012, the aggregate changes in our total gross amount of unrecognized tax benefits are summarized as follows:

	Year ended December 31, 2011	Year ended December 31, 2012
Beginning balance	$ —	$ 85
Gross increase in unrecognized tax benefits - prior year tax position	85	—
Ending balance	$ 85	$ 85

The Company files a U.S. federal and many state tax returns. The tax years 2007 to 2011 remain subject to examination by the IRS and most tax years since the Company's incorporation are subject to examination by various state authorities.

9. Related Party Transactions

The Company's Chairman and Chief Executive Officer and certain members of the board of directors of the Company also sit on the board of directors of The FRS Company ("FRS"). The Company recognized approximately $378, $513 and $30 in revenue from FRS for advertising and creative services during the years ended December 31, 2010, 2011 and 2012, respectively. As of December 31, 2011 and December 31, 2012, the Company's receivable balance due from FRS was $45 and $0, respectively. The creative services agreement was terminated by the parties effective May 31, 2011.

10. Employee Benefit Plan

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code ("401(k) Plan") covering all full-time employees who meet certain eligibility requirements. Eligible employees may defer up to 90% of their pre-tax eligible compensation, up to the annual maximum allowed by the Internal Revenue Service. Under the 401(k) Plan, the Company may, but is not obligated to, match a portion of the employee contributions up to a defined maximum. The Company did not make any matching contributions for the years ended December 31, 2010, 2011 and 2012 but has commenced making matching contributions in January 2013.

11. Share-based Compensation Plans and Awards

Stock Incentive Plans

Under the Company's 2010 Incentive Award Plan (the "2010 Plan"), the Administrator of the 2010 Plan, which is the compensation committee of the Company's board of directors, may grant up to 15,500 stock option, restricted stock, restricted stock unit and other incentive awards to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified stock options at the discretion of the Administrator. In connection with the adoption of the 2010 Plan on August 5, 2010, 334 stock-based awards then available for grant under the 2006 Plan were canceled. Any stock-based awards outstanding under the 2006 Plan when the 2010 Plan was adopted that subsequently are forfeited, expire or lapse are available for future grants under the 2010 Plan. In addition, awards available for grant under the 2010 Plan shall be increased on an annual basis as of January 1st of each fiscal year by an amount equal to the lesser of (i) 6,000 (ii) 5% of the total shares outstanding as of the end of the prior fiscal year and (iii) such lesser amount as determined by the Administrator of the 2010 Plan. As of December 31, 2012, 13,792 stock-based awards were available for future grant under the 2010 Plan. Generally, stock option grants have 10-year terms and employee stock options vest 1/4th on the anniversary of the vesting commencement date and 1/48th monthly thereafter, over a 4-year period. Restricted stock unit awards generally vest quarterly over a 3 or 4-year period. Certain stock options and restricted stock awards have accelerated vesting provisions in the event of a change in control or termination without cause.

Valuation of Awards

The per share fair value of stock options granted with service and/or performance conditions was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2012 [(1)]
Expected life (in years)	6.27	5.50	NA
Risk-free interest rate	1.31-2.83	1.46-2.30	NA
Expected volatility range	54-56%	56%	NA
Weighted average expected volatility	56%	56%	NA
Expected dividend yield	—%	—%	NA

(1) The Company did not grant any stock options to employees during the year ended December 31, 2012.

The expected term of stock options granted represents the weighted average period that the stock options are expected to remain outstanding. The Company determines the expected term assumption based on the Company's historical exercise behavior combined with estimates of the post-vesting holding period. Expected volatility is based on historical volatility of peer companies in the Company's industry that have similar vesting and contractual terms. The risk free interest rate is based on the implied yield currently available on U.S. Treasury issues with terms approximately equal to the expected life of the option. The Company currently has no history or expectation of paying cash dividends on its common stock.

The expected term for performance-based and non-employee awards is based on the period of time for which each award is expected to be outstanding, which is typically the remaining contractual term.

Award Activity

Stock Options

Stock option activity for the year ended December 31, 2012 is as follows:

	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2011	16,654	$ 13.21	7.53	$ 17,480
Options granted	—	—		
Options exercised	(3,747)	3.41		
Options forfeited or canceled	(1,061)	12.87		
Outstanding at December 31, 2012	11,846	$ 16.34	6.93	$ 10,208
Exercisable at December 31, 2012	5,854	$ 8.92	6.31	$ 9,156
Vested and expected to vest at December 31, 2012	10,512	$ 15.38	6.85	$ 9,990

The pre-tax aggregate intrinsic value of outstanding and exercisable stock options is based on the difference between the estimated fair value of the Company's common stock at December 31, 2011 and 2012 and their exercise prices, respectively for all awards where the fair value of the Company's common stock exceeds the exercise price. Options expected to vest reflect an estimated forfeiture rate.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2012:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.00 - 3.60	764	5.11	$ 2.53	723	$ 2.49
$3.61 - 7.20	887	6.06	5.31	779	5.21
$7.21 - 10.80	4,042	6.52	9.09	3,497	9.16
$10.81 - 14.40	219	7.73	13.17	128	13.13
$14.41 - 18.00	2,437	7.45	17.57	705	17.22
$18.01 - 21.60	47	8.12	21.42	22	21.41
$21.61 - 25.20	1,150	7.59	24.00	—	—
$28.81 - 32.40	1,150	7.59	30.00	—	—
$32.41 - 36.00	1,150	7.59	36.00	—	—
	11,846	6.93	$ 16.34	5,854	$ 8.92

Information related to stock-based compensation activity is as follows:

	Year ended December 31, 2010	2011	2012
Weighted average fair value of options granted (per option)	$ 5.41	$ 8.60	NA
Intrinsic value of options exercised	5,889	16,487	22,863
Total fair value of restricted stock vested	7,502	8,377	19,072

There was $20,488 of stock-based compensation expense as of December 31, 2012 related to the non-vested portion of stock options not yet recognized, which is expected to be recognized over a weighted average period of 2.8 years.

Restricted stock units

Activity for the year ended December 31, 2012 is as follows:

	Shares	Weighted average grant date fair value
Unvested at December 31, 2011	3,606	$ 12.19
Granted	3,149	7.73
Vested	(1,867)	10.21
Forfeited	(789)	10.84
Unvested at December 31, 2012	4,099	$ 9.82

As of December 31, 2012, there was approximately $33,609 of unrecognized compensation cost related to non-vested RSUs and restricted shares. The amount is expected to be recognized over a weighted average period of 2.6 years. To the extent that the forfeiture rate is different from that anticipated, stock-based compensation expense related to these awards will be different.

In connection with the acquisition of Pluck in 2008, the Company agreed to pay out the remaining unvested Pluck stock options held by then-Pluck employees at the date of the acquisition. Payments were made as the then-unvested Pluck options would have otherwise vested contingent upon the employees continued employment with the Company as of such date. As a result, the Company paid and expensed as part of stock-based compensation $360, $127 and $0 during the years ended December 31, 2010, 2011 and 2012, respectively, related to these options. There are no remaining unvested Pluck options at December 31, 2012.

Employee Stock Purchase Plan

In May 2011, the Company commenced its first offering under the Demand Media, Inc. 2010 Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase, through payroll deductions, a limited amount of the Company's common stock at a 15% discount to the lower of market price as of the beginning or ending of each six-month purchase period. Participants can authorize payroll deductions for amounts up to the lesser of 15% of their qualifying wages or the statutory limit under the U.S. Internal Revenue Code. The ESPP provides up to a 24-month offering period which is comprised of four consecutive six-month purchase periods commencing May and November. A maximum of one thousand two hundred fifty shares of common stock may be purchased by each participant at six-month intervals during the offering period. The fair value of the ESPP options granted is determined using a Black-Scholes model and is amortized over the remaining life of the 24-month offering period of the ESPP. The Black-Scholes model included an assumption for expected volatility of between 34% and 43% for each of the four purchase periods. During the years ended December 31, 2011 and 2012, respectively, the Company recognized an expense of $1,015 and $1,851 in relation to the ESPP and there were 9,311 shares of common stock remaining authorized for issuance under the ESPP at December 31, 2012. As of December 31, 2012 there was approximately $1,949 of unrecognized compensation cost related to the ESPP which is expected to be recognized on a straight-line basis over the remainder of the offering period.

LIVESTRONG.com Warrants

In January 2008, the Company entered into a license agreement with the LIVE**STRONG** Foundation, Inc. (the "License Agreement"). The LIVE**STRONG** Foundation ("LF") is a non-profit organization dedicated to uniting people to fight cancer. In consideration for the License Agreement, the Company issued warrants to purchase an aggregate of 312 shares of the Company's common stock at an exercise price of $12.00 per share to the LF (the "LF Warrant"). The LF Warrant was automatically net exercised upon the closing date of the Company's IPO and as a result the Company issued 184 shares of common stock to LF in January 2011.

BEI Warrant

In June 2010, the Company entered into a website development, endorsement and license agreement with Bankable Enterprises, Inc. ("BEI") (the "BEI Agreement"). BEI is wholly owned by Tyra Banks ("Ms. Banks"), a businesswoman and celebrity. As consideration for Ms. Banks' services, the Company issued a fully-vested four-year warrant to purchase 375 shares of the Company's common stock at an exercise price of $12.00 per share. Effective October 2012, the BEI Agreement was terminated and the Company agreed to release BEI and Ms. Banks from future services and obligations in exchange for Ms. Banks surrendering the warrants in full. As a result, the Company recorded a loss on termination of the warrant of approximately $300 during the year ended December 31, 2012.

Stock-based Compensation Expense

Stock-based compensation expense related to all employee and non-employee stock-based awards was as follows:

	Year ended December 31,		
	2010	2011	2012
Stock-based compensation included in			
Service costs	$ 868	$ 2,052	$ 2,820
Sales and marketing	2,379	4,857	6,118
Product development	1,692	5,013	6,452
General and administrative	4,750	16,934	15,978
Total stock-based compensation included in net income (loss)	9,689	28,856	31,368
Income tax benefit related to stock-based compensation included in net loss	(372)	(1,625)	(758)
	$ 9,317	$ 27,231	$ 30,610

Included in the table above are cash payments of $360, $127 and $0 related to the Pluck stock options for the years ended December 31, 2010, 2011, and 2012, respectively. In addition, $439 of expense related to the LF Warrant are included in the table above, for the years ended December 31, 2010, 2011 and 2012, respectively. Also included in the table above is $226, $452 and $673 of expense related to the BEI warrant for the years ended December 31, 2010, 2011 and 2012, respectively and $725 and $5,515 for the years ended December 31, 2011 and 2012, respectively related to taxes paid by the Company for vested RSUs which are included as stock-based compensation expense.

During the years ended December 31, 2010, 2011 and 2012, $899, $1,024 and $1,697 respectively, of stock-based compensation expense related to stock options was capitalized, primarily as part of internally developed software projects.

12. Stockholders' Equity

Stock Repurchases

Under the stock repurchase plan announced on August 19, 2011 and further increased on February 8, 2012, the Company is authorized to repurchase up to $50,000 of its common stock from time to time in open market purchases or in negotiated transactions. During the year ended December 31, 2012, the Company repurchased 1,105 shares at an average price of $8.02 per share for an aggregate amount of $8,868. The timing and actual number of shares repurchased will depend on various factors including price, corporate and regulatory requirements, debt covenant requirements, alternative investment opportunities and other market conditions.

Shares repurchased by the Company are accounted for when the transaction is settled and there were no unsettled share repurchases as at December 31, 2012.

Other

Each share of common stock has the right to one vote per share. Each restricted stock purchase right has the right to one vote per share and the right to receive dividends or other distributions paid or made with respect to common shares, subject to restrictions for continued employment service.

Effective January 31, 2011, all shares of preferred stock and preferred stock warrants were converted into 61,706 shares of common stock in connection with the Company initial public offering as described in Note 1— Company Background and Overview. As a result the carrying value of the preferred stock of $373,754 and the carrying value of the preferred stock warrants of $477 were reclassified from mezzanine equity and liabilities, respectively, to stockholder's equity.

13. Business Acquisitions

The Company accounts for acquisitions of businesses using the purchase method of accounting where the cost is allocated to the underlying net tangible and intangible assets acquired, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Determining the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions, including, but not limited to, the selection of appropriate valuation methodology, projected revenue, expenses and cash flows, weighted average cost of capital, discount rates, estimates of advertiser and publisher turnover rates and estimates of terminal values.

During the years ended December 31, 2011 and 2012, the Company acquired businesses consistent with the Company's strategic plan of acquiring, consolidating and developing Internet media properties and applications and domain service businesses. In addition to identifiable assets acquired in these business combinations, the Company acquired goodwill that primarily derives from the ability to generate synergies across the Company's media services.

The acquisitions are included in the Company's consolidated financial statements as of the date of the acquisition. The following table summarizes the allocation of the purchase consideration, which is preliminary and subject to revision based on the finalization of hold back amounts for post-closing obligations and related matters, and the estimated fair value of the assets acquired and the liabilities assumed for business acquisitions made by the Company during the year ended December 31, 2012.

	Name.com
Goodwill	$ 10,997
Customer relationships	4,784
Owned website names	1,730
Trade names	705
Non-compete agreements	180
Technology	74
Other assets acquired (liabilities assumed), net	(470)
Total	$ 18,000

On December 31, 2012, the Company completed the acquisition of the net assets of Name.com, a retail registrar company based in Denver, Colorado. The purchase consideration of $18,000 comprised an initial cash payment of $16,200 and the remaining $1,800 is subject to a hold back to satisfy post-closing indemnification obligations as well as a working capital adjustment and any remaining portion of such hold back amount that is not subject to then pending claims will be paid to the selling shareholders prior to or on the 18-month anniversary of the closing of the transaction. Developed technology, customer relationships and owned website names have an average useful life of 4 years, non-compete arrangements have a useful life of 5 years and trade names have an indefinite useful life. Goodwill, which is comprised of the excess of the purchase consideration over the fair value of the identifiable net assets acquired, is primarily derived from assembled workforce and the Company's ability to generate synergies with its services. Goodwill of approximately $10,500 is expected to be deductible for tax purposes.

The following table summarizes the allocation of the purchase consideration and the estimated fair value of the assets acquired and the liabilities assumed for business acquisitions made by the Company during the year ended December 31, 2011:

	CoveritLive	**Emerging Cast**	**RSS Graffiti**	**IndieClick**	**Total**
Goodwill	$ 2,929	$ 3,402	$ 13,325	$ 11,484	$ 31,140
Developed technology	1,160	—	2,640	635	4,435
Customer relationships	600	—	228	2,008	2,836
Non-compete arrangements	30	61	—	286	377
Trade names and other	35	10	12	250	307
Other assets acquired (liabilities assumed)	146	(41)	23	(1,625)	(1,497)
Total	$ 4,900	$ 3,432	$ 16,228	$ 13,038	$ 37,598

On February 23, 2011, the Company completed the acquisition of the assets of CoveritLive, a company that provides social media services by powering live events with social engagement tools. The purchase consideration of $4,900 was comprised of cash of $4,469 and a pre-existing note receivable, including accrued interest, of $431. $632 was subject to a hold back to satisfy post-closing indemnification obligations and the remaining portion of such hold back amount that is not subject to then pending claims was paid to the selling shareholders on the 18-month anniversary of the closing of the transaction.

On July 1, 2011, the Company acquired EmergingCast, a business in Argentina that specializes in the creation of Spanish and Portuguese language media content. The acquisition is intended to support the Company's international expansion efforts. The purchase consideration of $3,432 was comprised of cash of $2,725 and 53 shares of common stock valued at $707, based on the Company's stock price on the acquisition date.

On August 5, 2011, the Company acquired 100% of the membership units (including the profits interest) of RSS Graffiti, LLC, a creator of content sharing applications on Facebook, helping online publishers, brands and individuals to program content for their fan audience on Facebook. The purchase price of approximately $16,228 (subject to adjustment) was comprised of cash consideration of approximately $12,614 and 390 shares of unregistered common stock valued at $3,614, based on the Company's stock price on the acquisition date. $750 of the cash purchase price was held back by the Company to satisfy post-closing indemnification obligations and/or post-closing working capital adjustments based on the balance sheet as of the acquisition date as was paid on the 12-month anniversary of the acquisition date.

On August 8, 2011, the Company acquired 100% of the equity of IndieClick Media Group, Inc., an online branding and advertising company that represents niche-focused online properties in the entertainment, music, film, fashion and comedy categories, for approximately $13,038 (subject to adjustment) in cash. $1,400 of the purchase consideration was subject to a hold back to satisfy post-closing indemnification obligations and/or post-closing working capital adjustments and the remaining portion of such hold back amount that was not subject to then pending claims was paid to the selling shareholders on the 18-month anniversary of the closing of the transaction.

For all acquisitions completed during the year ended December 31, 2011, developed technology has a weighted-average useful life of 4.1 years, customer relationships have a weighted-average useful life of 6.7 years, non-compete arrangements have a weighted-average useful life of 2.3 years and trade names and other long-lived intangible assets have a weighted-average useful life of 9 years. Goodwill, which is comprised of the excess of the purchase consideration over the fair value of the identifiable net assets acquired, is primarily derived from assembled workforce and the Company's ability to generate synergies with its services. Goodwill of approximately $16,300 is expected to be deductible for tax purposes.

Supplemental Pro forma Information (unaudited)

Supplemental information on an unaudited pro forma basis, as if the 2012 and 2011 acquisitions had been consummated as of January 1, 2011, is as follows:

	Year ended December 31, 2011	Year ended December 31, 2012
	(unaudited)	
Revenue	$ 340,711	$ 398,204
Net income (loss)	(23,384)	6,100

Supplemental information on an unaudited pro forma basis, as if the 2011 acquisitions had been consummated as of January 1, 2010, is as follows:

	Year ended December 31, 2010	Year ended December 31, 2011
	(unaudited)	
Revenue	$ 261,897	$ 328,925
Net loss	(6,925)	(22,311)

The unaudited pro forma supplemental information is based on estimates and assumptions which the Company believes are reasonable and reflects amortization of intangible assets as a result of the acquisitions. The pro forma results are not necessarily indicative of the results that have been realized had the acquisitions been consolidated in the tables above as of January 1, 2011 and January 1, 2010, respectively.

Disclosure of revenue and earnings for the 2011 acquisitions included in the consolidated results of the Company for the post acquisition periods is impracticable because their operations were integrated into our existing business and not managed or tracked on a separate basis.

14. Business Segments

The Company operates in one operating segment. The Company’s chief operating decision maker (“CODM”) manages the Company’s operations on a consolidated basis for purposes of evaluating financial performance and allocating resources. The CODM reviews separate revenue information for its Content & Media and Registrar offerings. All other financial information is reviewed by the CODM on a consolidated basis. All of the Company’s principal operations and decision- making functions are located in the United States. Revenue generated outside of the United States is not material for any of the periods presented.

Revenue derived from the Company's Content & Media and Registrar Services is as follows:

	Year ended December 31,		
	2010	2011	2012
Content & Media revenue			
Owned & operated	$ 110,770	$ 157,089	$ 178,511
Network	42,140	48,361	67,888
Total Content & Media revenue	152,910	205,450	246,399
Registrar revenue	100,026	119,416	134,179
Total revenue	$ 252,936	$ 324,866	$ 380,578

15. Concentrations

Concentration of the Cost of Registered Names

For the years ended December 31, 2010, 2011 and 2012, approximately 84%, 80% and 82%, respectively, of the payments for the cost of registered names and prepaid registration fees were made to a single domain name registry, which is accredited by ICANN to be the exclusive registry for certain TLD's. The failure of this registry to perform its operations may cause significant short-term disruption to the Company's domain registration business.

Concentrations of Credit and Business Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, marketable securities and accounts receivable.

At December 31, 2011 and 2012, the Company's cash and cash equivalents and marketable securities were maintained primarily with four major U.S. financial institutions and four foreign banks. The Company also has used one Internet payment processor in both periods. Deposits with these institutions at times exceed the federally insured limits, which potentially subjects the Company to concentration of credit risk. The Company has not experienced any losses related to these balances and believes that there is minimal risk.

A substantial portion of the Company's advertising revenue is generated through arrangements with one advertising network partner. The Company may not be successful in renewing any of these agreements, or if they are renewed, they may not be on terms as favorable as current agreements. The Company may not be successful in renewing its agreements with advertising network partners on commercially acceptable terms. The percentage of revenue generated through advertising network partners representing more than 10% of consolidated revenue is as follows:

	Year ended December 31,		
	2010	2011	2012
Advertising Network Partner A	29%	33%	38%

At December 31, 2011 and 2012, advertising network partners comprising more than 10% of the consolidated accounts receivable balance was as follows:

	2011	2012
Advertising Network Partner A	27%	26%

16. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net loss per share of common stock:

	Year ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2012
Numerator:			
Net income (loss)	$ (5,325)	$ (18,524)	$ 6,176
Cumulative preferred stock dividends	(33,251)	(2,477)	—
Net income (loss) attributable to common stockholders	$ (38,576)	$ (21,001)	$ 6,176
Denominator:			
Weighted average common shares outstanding	15,002	79,121	84,921
Weighted average unvested restricted stock awards	(1,494)	(475)	(368)
Weighted average common shares outstanding—basic	13,508	78,646	84,553
Dilutive effect of stock options, warrants and ESPP	—	—	2,684
Weighted average common shares outstanding—diluted	13,508	78,646	87,237
Net income (loss) per share—basic	$ (2.86)	$ (0.27)	$ 0.07
Net income (loss) per share—diluted	$ (2.86)	$ (0.27)	$ 0.07

As of each period end, the following common equivalent shares were excluded from the calculation of the Company's net income (loss) per share as their inclusion would have been antidilutive:

	Year ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2012
Stock options	19,065	16,654	11,846
Unvested RSUs and restricted shares	1,302	3,606	4,099
Convertible Series A Preferred Stock	32,667	—	—
Convertible Series B Preferred Stock	4,732	—	—
Convertible Series C Preferred Stock	13,024	—	—
Convertible Series D Preferred Stock	11,250	—	—
Convertible Series C Preferred Stock Warrants	63	—	—
Common Stock Warrants	1,749	375	—
ESPP shares	—	1,249	32

17. Subsequent Events

In February 2013, the Company announced that its board of directors authorized a plan to explore separating the company into two independent, publicly-traded companies: a pure-play Internet-based content and media company and a pure-play domain services company.

EXHIBIT INDEX

Exhibit No.		Description of Exhibit
2.1		Securities Purchase Agreement, dated as of August 5, 2011, by and among Demand Media, Inc., RSS Graffiti, LLC, the holders of the membership interests of RSS Graffiti, LLC and Folie Investment Group LLC, as the Seller Representative (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on August 9, 2011)
2.2		Stock Purchase Agreement, dated as of August 8, 2011, by and among Demand Media, Inc., IndieClick Media Group, Inc, the holders of the shares of common stock of IndieClick Media Group, Inc. and Peter Luttrell, as the Seller Representative (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the SEC on August 9, 2011)
3.1		Amended and Restated Certificate of Incorporation of Demand Media, Inc., dated January 28, 2011 (incorporated by reference to Exhibit 3.01 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011)
3.2		Amended and Restated Bylaws of Demand Media, Inc. (incorporated by reference to Exhibit 3.02 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011)
4.1		Form of Demand Media, Inc. Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Company's Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on December 21, 2010)
4.2		Third Amended and Restated Stockholders' Agreement, by and among Demand Media, Inc., and the stockholders listed on Exhibit A thereto, dated March 3, 2008 (incorporated by reference to Exhibit 4.02 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
4.2A		Amendment No. 1 to Third Amended and Restated Stockholders' Agreement, dated October 21, 2010 (incorporated by reference to Exhibit 4.03 to the Company's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on October 29, 2010)
4.2B		Waiver of Registration Rights and Amendment to Stockholders' Agreement, dated August 24, 2012 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.1	†	Form of Indemnification Agreement entered into by and between Demand Media, Inc. and each of its directors and executive officers (incorporated by reference to Exhibit 10.01 to the Company's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on October 12, 2010)
10.2		Sublease, by and between Dimensional Fund Advisors LP and Demand Media, Inc., dated September 24, 2009 (incorporated by reference to Exhibit 10.02 to the Company's Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on September 16, 2010)
10.3	†	Amended and Restated Demand Media, Inc. 2006 Equity Incentive Plan, adopted April 2006, amended and restated June 26, 2008 (incorporated by reference to Exhibit 10.03 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.3A	†	First Amendment to the Amended and Restated Demand Media, Inc. 2006 Equity Incentive Plan, dated June 1, 2009 (incorporated by reference to Exhibit 10.03A to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.4	†	Form of Demand Media, Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement (incorporated by reference to Exhibit 10.06 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.5	†	Form of Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement (incorporated by reference to Exhibit 10.07 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.6	†	Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Richard Rosenblatt, dated April 19, 2007, amended April 27, 2007, amended further February 10, 2010 (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.7	†	Demand Media Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement, between Demand Media, Inc. and Richard Rosenblatt, dated April 19, 2007, amended April 27, 2007, amended further February 10, 2010 (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)

10.8	†	Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Charles Hilliard, dated June 1, 2007, amended February 9, 2010 (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.9	†	Demand Media, Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement, between Demand Media, Inc. and Charles Hilliard, dated June 1, 2007 (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.10	†	Demand Media, Inc. 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Michael Blend, dated May 29, 2008, amended February 10, 2010 (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.11	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Richard Rosenblatt, dated June 2009 (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.12	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Charles Hilliard, dated June 2009 (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.13	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Michael Blend, dated June 2009 (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.14	†	Demand Media, Inc. 2006 Equity Incentive Plan Restricted Stock Purchase Agreement, between Demand Media, Inc. and Joanne Bradford, dated March 26, 2010 (incorporated by reference to Exhibit 10.30 to the Company's Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 3, 2010)
10.15	†	Demand Media, Inc. Amended and Restated 2006 Equity Incentive Plan Stock Option Agreement, between Demand Media, Inc. and Joanne Bradford, dated March 26, 2010 (incorporated by reference to Exhibit 10.32 to the Company's Amendment No. 6 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 10, 2010)
10.16	†	Demand Media, Inc. 2010 Incentive Award Plan, adopted August 3, 2010 (incorporated by reference to Exhibit 10.04 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.17	†	Form of Demand Media, Inc. 2010 Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement (incorporated by reference to Exhibit 10.05 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.18	†	Form of Demand Media, Inc. 2010 Incentive Award Plan Restricted Stock Unit Award Grant Notice and Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2011)
10.19	†	Form of Demand Media, Inc. 2010 Incentive Award Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 12, 2011)
10.20	†	Demand Media, Inc. 2010 Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement, between Demand Media, Inc. and Joanne Bradford, dated August 3, 2010 (incorporated by reference to Exhibit 10.31 to the Company's Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 3, 2010)
10.21	†	Demand Media, Inc. 2010 Employee Stock Purchase Plan, dated September 27, 2010 (incorporated by reference to Exhibit 10.26 to the Company's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on October 29, 2010)
10.22	†	Employment Agreement between Demand Media, Inc. and Richard Rosenblatt, dated August 5, 2010 (incorporated by reference to Exhibit 10.08 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.23	†	Employment Agreement between Demand Media, Inc. and Charles Hilliard, dated August 5, 2010 (incorporated by reference to Exhibit 10.09 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.24	†	Consulting Agreement between Demand Media, Inc. and Charles Hilliard, dated June 14, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 10, 2012)

10.24A	†	First Amendment to Consulting Agreement between Demand Media, Inc. and Charles Hilliard, dated October 2, 2012 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.25	†	Employment Agreement between Demand Media, Inc. and Joanne Bradford, dated March 15, 2010 (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.25A	†	First Amendment to Employment Agreement between Demand Media, Inc. and Joanne Bradford, dated September 3, 2010 (incorporated by reference to Exhibit 10.13A to the Company's Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on January 3, 2011)
10.26	†	Employment Agreement between Demand Media, Inc. and Michael Blend, dated October 1, 2012 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.27	†	Amended and Restated Employment Agreement between Demand Media, Inc. and Mel Tang, dated October 1, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2012)
10.28	†	Employment Agreement between Demand Media, Inc. and Taryn Naidu, dated August 31, 2010 (filed herewith)
10.29	†	Offer Letter between Demand Media, Inc. and Michael Blend, dated August 1, 2006 (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.30	†	Executive Separation Agreement and General Release between Demand Media, Inc. and Larry Fitzgibbon, dated January 27, 2012 (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed with the SEC on February 24, 2012)
10.31		Google Services Agreement, between Google, Inc. and Demand Media, Inc., dated May 28, 2010 (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-168612) filed with the SEC on August 6, 2010)
10.31A		Amendment Number 3 to Google Services Agreement, entered into as of September 1, 2011, between Google, Inc. and Demand Media, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 14, 2011)
10.32		Credit Agreement, dated as of August 4, 2011, among Demand Media, Inc., as Borrower, Silicon Valley Bank, as Administrative Agent, Documentation Agent, Issuing Lender and Swingline Lender, U.S. Bank, N.A., as Syndication Agent and Lenders party thereto from time to time (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 12, 2011)
14.1		Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.01 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011)
21.1		List of subsidiaries of Demand Media, Inc. (filed herewith)
23.1		Consent of Independent Registered Public Accounting Firm (filed herewith)
31.1		Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2		Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1		Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2		Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS		XBRL Instance Document*
101.SCH		XBRL Taxonomy Extension Schema Document*
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document*

101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

† Indicates management contract or compensatory plan, contract or arrangement.

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Richard M. Rosenblatt, certify that:

1. I have reviewed this Annual Report on Form 10-K of Demand Media, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard M. Rosenblatt

Richard M. Rosenblatt
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Date: March 5, 2013

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Mel Tang, certify that:

1. I have reviewed this Annual Report on Form 10-K of Demand Media, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mel Tang

Mel Tang
Chief Financial Officer
(Principal Financial Officer)

Date: March 5, 2013

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 of Demand Media, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Rosenblatt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard M. Rosenblatt

Richard M. Rosenblatt
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Date: March 5, 2013

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Demand Media, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 of Demand Media, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mel Tang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mel Tang

Mel Tang
Chief Financial Officer
(Principal Financial Officer)

Date: March 5, 2013

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Demand Media, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

BOARD OF DIRECTORS

RICHARD M. ROSENBLATT
Chairman & Chief Executive Officer, Demand Media, Inc.

ROBERT R. BENNETT
Principal, Hilltop Investments LLC

GAURAV BHANDARI
Managing Director, Goldman Sachs & Co.

PETER GUBER
Chairman & CEO, Mandalay Entertainment Group

FREDERIC W. HARMAN
Managing Partner, Oak Investment Partners

JOHN A. HAWKINS
Managing Partner and Co-Founder, Generation Partners

JOSHUA G. JAMES
Chairman & CEO, Domo, Inc.

VICTOR E. PARKER
Managing Director, Spectrum Equity Investors

JAMES R. QUANDT
Managing Partner, Thomas James Capital, Inc.

EXECUTIVE MANAGEMENT

RICHARD M. ROSENBLATT
Chairman & Chief Executive Officer

MEL TANG
Chief Financial Officer

JOANNE K. BRADFORD
Chief Revenue & Marketing Officer

TARYN NAIDU
Executive Vice President, Registrar Services

MATTHEW POLESETSKY
Executive Vice President & General Counsel

COMPANY INFORMATION

TRADING INFORMATION
Shares of our common stock are publicly available for trading on the New York Stock Exchange (NYSE) under the ticker symbol "DMD".

HEADQUARTERS
1655 26th Street
Santa Monica, CA 90404

ANNUAL MEETING
Demand Media's 2013 Annual Stockholder Meeting will be held on June 11, 2013 at
The Fairmont Miramar Hotel & Bungalows
101 Wilshire Boulevard
Santa Monica, CA 90401

TRANSFER AGENT & REGISTRAR
American Stock Transfer & Trust Company LLC
1218 Third Avenue, Suite 1700
Seattle, WA 98101
(800) 937-5449

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
PricewaterhouseCoopers LLP
Los Angeles, CA

CORPORATE COUNSEL
Latham & Watkins LLP
Los Angeles, CA

INVESTOR RELATIONS
Demand Media Investor Relations
1655 26th Street
Santa Monica, CA 90404
Email: julie.macmedan@demandmedia.com

STOCKHOLDER INFORMATION
Demand Media's Corporate Governance and additional stockholder information, including Committee Composition is available online at ir.demandmedia.com

Demand Media

1655 26th Street
Santa Monica, CA 90404
www.demandmedia.com