# Constant Contact Announces Third Quarter 2012 Financial Results

**Revenue of $63.8 million increases 17% year-over-year**

WALTHAM, Mass.--(BUSINESS WIRE)--Constant Contact®, Inc. (Nasdaq: CTCT), which helps more than half a million small organizations connect with their customers through a suite of online engagement marketing tools, today announced its financial results for the third quarter ended September 30, 2012.

“We delivered on revenue and exceeded profitability expectations in the third quarter,” said Gail Goodman, chief executive officer of Constant Contact. “Growth in revenue per user and retention rates continued to show solid gains. New customer additions were below expectations for the quarter. Interest in our products remains high; we saw increased numbers of visitors and trialers. Our conversion of trialers into paying customers underperformed historical trends. We have begun to implement changes that we believe will improve conversion back to historical rates moving forward.”

“We have a strong brand and are the trusted marketing provider to more than half a million small businesses. Our opportunity is expansive and we continue to invest to drive the transformation of Constant Contact into a multi-product company. This evolution will take a bit longer than we had envisioned,” continued Goodman. “Looking ahead, we are focused on growing our email business while testing, iterating and scaling our newer offerings.”

**Third Quarter 2012 Financial Metrics**

- Revenue was $63.8 million, an increase of 17% compared to revenue of $54.3 million for the comparable period in 2011.
- Gross margin in the third quarter was 71%, compared to 71% for the comparable period in 2011.
- GAAP net income was $6.6 million, compared to net income of $5.4 million for the third quarter of 2011. GAAP net income per share was $0.21, based on diluted weighted average shares outstanding of 31.0 million, compared to net income of $0.18 per share for the comparable period in 2011, based on diluted weighted average shares outstanding of 30.4 million. GAAP net income and GAAP net income per share include a $6.1 million non-cash benefit from a change to the fair value of a contingent consideration liability associated with the acquisition of SinglePlatform in 2012.
- Adjusted EBITDA was $11.3 million compared to adjusted EBITDA of $12.0 million for the comparable period in 2011. Adjusted EBITDA margin was 17.6%, compared to 22.1% for the comparable period in 2011. Adjusted EBITDA and adjusted EBITDA margin exclude a $6.1 million non-cash benefit from a change to the fair value of a contingent consideration liability associated with the acquisition of SinglePlatform in 2012.
- Non-GAAP net income was $6.2 million as compared to $8.2 million for the comparable period in 2011. Non-GAAP net income per diluted share was $0.20, based on diluted weighted average shares outstanding of 31.0 million, as compared to $0.27, based on diluted weighted average shares outstanding of 30.4 million, for the comparable period in 2011. Non-GAAP net income and non-GAAP net income per share exclude a $6.1 million non-cash benefit from a change to the fair value of a contingent consideration liability associated with the acquisition of SinglePlatform in 2012.
- Cash flow from operations was $10.9 million, compared to $11.6 million for the third quarter of 2011.
- Capital expenditures were $4.4 million, compared to $4.1 million for the third quarter of 2011.
- Free cash flow was $6.5 million, compared to $7.5 million for the third quarter of 2011.
- The company had $88.2 million in cash, cash equivalents and short-term marketable securities at September 30, 2012, compared to $81.1 million at June 30, 2012.

**Operating Metrics**

- Added 35,000 gross new unique customers in the third quarter compared to 45,000 in the second quarter of 2012. (*)
- Ended the third quarter with 540,000 unique customers, an increase from 535,000 unique customers at the end of the second quarter of 2012 and 485,000 unique customers at the end of the third quarter of 2011. This includes the approximately 10,000 existing SinglePlatform customers at the time of the acquisition in June 2012. (*)
- Average monthly revenue per unique customer, ARPU, for the third quarter was $40.35, up from $39.98 in the second quarter of 2012, and up from $37.94 in the comparable period in 2011. (**)
- Monthly retention rate of unique paying customers remained in its historical range of 97.8%, plus or minus 0.5%, for each month during the third quarter.

*(*) Figures are rounded to nearest 5,000.*

*(**) The ARPU calculation includes SinglePlatform revenue for the third quarter of 2012 and excludes the approximately 10,000 existing SinglePlatform customers at the time of the acquisition in June 2012.*

**Other Recent Highlights**

- Announced the introduction of EventSpot™, the latest version of Constant Contact's rebranded and renamed event management product, in August. EventSpot's focus remains on helping small businesses, nonprofits and associations hold successful events. The new name reflects the value of EventSpot as a comprehensive online tool, enabling effective event promotion, event registration, payments, web-based meeting tools and post-event tracking and analytics.
- In September, Constant Contact jointly hosted a second social media marketing webinar with Facebook®. This webinar focused on the essential steps to building a fan base, engaging an audience and creating large-scale word of mouth on Facebook. The purpose of the webinar was to demonstrate the value of social media to the nonprofit community in terms of growing their organization, as well as building a community of advocates to reinvigorate existing members and find new volunteers and donors.
- In August, launched the Constant Contact Association Program designed to help Constant Contact's more than 10,000 national association subscribers, local chapters and member organizations achieve marketing success. The program focuses on online marketing best practices education to help associates attract new members, foster communication with existing members, and support members' marketing efforts with Constant Contact's email marketing, social media marketing, event marketing, local deals, digital storefront and online survey tools.

"For the third quarter, we delivered revenue in-line with expectations and a better-than-expected adjusted EBITDA margin," said Harpreet Grewal, chief financial officer of Constant Contact. "Third quarter customer additions proved disappointing. As we look to subsequent periods, we are adjusting our guidance to reflect third quarter trends. For 2012, we expect to exit the fourth quarter with revenue growth of approximately 14% on a year-over-year basis, while also delivering annual adjusted EBITDA at the high end of our previous guidance. For 2013, we expect to deliver approximately 13% - 15% annual revenue growth and approximately 100 basis points of annual adjusted EBITDA margin improvement. We are committed to improving our execution and setting in place the basis for acceleration of both customer and revenue growth."

**Business Outlook**

Based on information available as of October 25, 2012, Constant Contact is issuing guidance for the fourth quarter, full year 2012 and full year 2013 as follows:

Fourth Quarter 2012:

| | Current Guidance (10/25/2012) |
|---|---|
| Total revenue | $65.2 m - $65.5 m |
| Adjusted EBITDA margin | 15.3% - 16.0% |
| Adjusted EBITDA | $10.0 m - $10.5 m |
| Stock-based compensation expense | $4.0 m |
| GAAP net income | $300 thousand - $600 thousand |
| GAAP net income per share | $0.01 - $0.02 |
| Non-GAAP net income per share* | $0.14 - $0.16 |
| Diluted weighted average shares outstanding | 31.0 m |

Full Year 2012:

| | Prior Guidance (7/26/2012) | Current Guidance (10/25/2012) |
|---|---|---|
| Total revenue | $253 m - $254m | $251.1m - $251.4m |
| Adjusted EBITDA margin | 14.2% - 14.7% | 14.5% - 14.7% |
| Adjusted EBITDA | $35.9 m - $37.3 m | $36.5 m - $37.0 m |
| Stock-based compensation expense | $14.3 m | $14.9 m |
| GAAP net income | $1.2 m - $2.1 m | $6.6 m - $6.9 m |
| GAAP net income per share | $0.04 - $0.07 | $0.21 - $0.22 |
| Non-GAAP net income per share* | $0.51 - $0.55 | $0.54 - $0.56 |
| Diluted weighted average shares outstanding | 31.3 m | 31.0 m |
| Estimated effective tax rate | ~40% | ~30% |
| Estimated cash tax rate | ~10% | ~10% |

*non-GAAP net income per share calculated using an estimated cash tax rate

Full Year 2013:

| | Current Guidance (10/25/2012) |
|---|---|
| Total revenue | Approximately 13% - 15% revenue growth |
| Adjusted EBITDA margin | ~100 basis points of annual Adjusted EBITDA margin expansion |

**Non-GAAP Financial Measures**

This press release contains the following non-GAAP financial measures: Adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income, non-GAAP net income per share, estimated cash tax rate and free cash flow.

Adjusted EBITDA is calculated by taking GAAP net income, adding depreciation and amortization, stock-based compensation, adjusting for taxes and contingent consideration adjustment, then subtracting interest and other income, net. Adjusted EBITDA margin is equal to adjusted EBITDA divided by revenue.

Non-GAAP net income is calculated by taking GAAP net income adding back stock-based compensation expense and then adjusting for the non-cash portion of income taxes and contingent consideration adjustment. Non-GAAP net income per share is calculated by dividing Non-GAAP net income by the diluted weighted average shares outstanding.

Estimated cash tax rate is calculated by dividing estimated taxes to-be-paid by estimated full year income before taxes.

Free cash flow is calculated by subtracting cash paid for the acquisition of property and equipment from net cash provided by operating activities.

Constant Contact believes that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to Constant Contact's financial condition and results of operations. The company's management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses, for purposes of determining executive and senior management incentive compensation and for budgeting and planning purposes. These measures are used in monthly financial reports prepared for management and in monthly and quarterly financial reports presented to the company's board of directors. The company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the company's financial measures with other software-as-a-service companies, many of which present similar non-GAAP financial measures to investors.

Management of the company does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in the company's financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, management presents non-GAAP financial measures in connection with GAAP results. Constant Contact urges investors to review the reconciliation of its non-GAAP financial measures to the comparable GAAP financial measures, which it includes in press releases announcing quarterly financial results, including this press release, and not to rely on any single financial measure to evaluate the company's business.

Reconciliation tables of the most comparable GAAP financial measures to the non-GAAP financial measures used in this press release are included with the financial tables at the end of this release.

**Conference Call Information**

| | |
|---|---|
| What: | Constant Contact third quarter 2012 financial results conference call |
| When: | Thursday, October 25, 2012 |
| Time: | 5:00 p.m. ET |
| Live Call: | (877) 334-1974, domestic |

Replay: (760) 666-3590, international
(855) 859-2056, domestic
(404) 537-3406, international

Webcast: http://investor.constantcontact.com/(live and replay)

Live and replay conference ID code: 37575438

The webcast will be archived on Constant Contact's website for a period of three months.

**About Constant Contact, Inc.**

Constant Contact is revolutionizing the success formula for small organizations through affordable, easy-to-use Engagement Marketing™ tools that help create and grow customer relationships. More than half a million small businesses, non-profits, and associations worldwide rely on Constant Contact to drive ongoing customer dialogs through email marketing, social media marketing, event marketing, local deals and online surveys. All Constant Contact products come with unrivaled KnowHow, education, and free coaching with a personal touch, including award-winning customer support.

*Constant Contact and the Constant Contact Logo are registered trademarks of Constant Contact, Inc. All Constant Contact product names and other brand names mentioned herein are trademarks or registered trademarks of Constant Contact, Inc. All other company and product names may be trademarks or service marks of their respective owners.*

**Cautionary Language Concerning Forward-Looking Statements**

This press release contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding the interest level in our products, improving conversion rates, strong brand and market position, future opportunity, accelerating customer growth and revenue growth, expanding adjusted EBITDA margin and the financial guidance for the fourth quarter of 2012, full year 2012 and full year 2013. These forward-looking statements are made as of the date they were first issued and were based on current expectations, estimates, forecasts and projections as well as the beliefs and assumptions of management. Words such as "expect," "anticipate," "should," "believe," "hope," "target," "project," "goals," "estimate," "potential," "predict," "may," "will," "might," "could," "intend," variations of these terms or the negative of these terms and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond Constant Contact's control. Constant Contact's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to, the company's ability to attract new customers and retain existing customers, the company's dependence on the market for email marketing services for small organizations, adverse economic conditions in general and adverse economic conditions specifically affecting the markets in which the company operates, the company's ability to successfully develop and introduce new products and add-ons or enhancements to existing products, including the Social Campaigns and SaveLocal products, the integration of SinglePlatform, adverse regulatory or legal developments, litigation risk, the company's ability to continue to promote and maintain its brand in a cost-effective manner, changes in the competitive environment, the company's ability to compete effectively, the company's ability to attract and retain key personnel, the company's ability to protect its intellectual property and other proprietary rights, and other risks detailed in Constant Contact's most recent Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission as well as other documents that may be filed by the company from time to time with the Securities and Exchange Commission. Past performance is not necessarily indicative of future results. The forward-looking statements included in this press release represent Constant Contact's views as of the date of this press release. The company anticipates that subsequent events and developments will cause its views to change. Constant Contact undertakes no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements should not be relied upon as representing Constant Contact's views as of any date subsequent to the date of this press release.

(CTCT-F)

Constant Contact, Inc.

Consolidated Condensed Statements of Operations (unaudited)

(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | $63,846 | $54,346 | $185,856 | $156,888 |
| Cost of revenue | 18,722 | 15,679 | 54,755 | $45,595 |
| Gross profit | 45,124 | 38,667 | 131,101 | 111,293 |
| Operating expenses: | | | | |
| Research and development | 9,776 | 7,338 | 29,051 | 22,325 |
| Sales and marketing | 24,881 | 19,455 | 76,435 | 66,204 |
| General and administrative | 7,956 | 6,191 | 23,201 | 17,623 |
| Acquisition costs and other related charges | (6,020) | - | (5,297) | 264 |
| Total operating expenses | 36,593 | 32,984 | 123,390 | 106,416 |
| Income from operations | 8,531 | 5,683 | 7,711 | 4,877 |
| Interest income and other income (expense), net | 68 | 80 | 201 | 264 |
| Income before income taxes | 8,599 | 5,763 | 7,912 | 5,141 |
| Income tax expense | (1,978) | (410) | (1,535) | (357) |
| Net income | $6,621 | $5,353 | $6,377 | $4,784 |
| Net income per share: | | | | |
| Basic | $0.22 | $0.18 | $0.21 | $0.16 |
| Diluted | $0.21 | $0.18 | $0.21 | $0.16 |
| Weighted average shares outstanding used in computing per share amounts: | | | | |
| Basic | 30,466 | 29,631 | 30,339 | 29,481 |
| Diluted | 30,957 | 30,399 | 31,043 | 30,679 |

Constant Contact, Inc.

Calculation of Adjusted EBITDA and Adjusted EBITDA Margin (unaudited)

(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | $6,621 | $5,353 | $6,377 | $4,784 |
| Subtract: | | | | |
| Contingent consideration adjustment | 6,094 | - | 6,094 | - |
| Interest income and other income (expense), net | 68 | 80 | 201 | 264 |
| Add back: | | | | |
| Depreciation and amortization | 5,044 | 3,535 | 14,013 | 10,567 |
| Stock-based compensation expense | 3,772 | 2,792 | 10,847 | 8,643 |
| Income tax expense | 1,978 | 410 | 1,535 | 357 |
| Adjusted EBITDA | $11,253 | $12,010 | $26,477 | $24,087 |
| Divide by: | | | | |
| Revenue | $63,846 | $54,346 | $185,856 | $156,888 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Adjusted EBITDA margin | 17.6 | % | 22.1 | % | 14.2 | % | 15.4 | % |

Constant Contact, Inc.

Calculation of Non-GAAP Net Income and Non-GAAP Net Income per Share (unaudited)

(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | $ 6,621 | $ 5,353 | $ 6,377 | $ 4,784 |
| Adjust: | | | | |
| Non-cash portion of income tax expense | 1,870 | 63 | 1,212 | 221 |
| Contingent consideration adjustment | (6,094) | - | (6,094) | - |
| Add back: | | | | |
| Stock-based compensation expense | 3,772 | 2,792 | 10,847 | 8,643 |
| Non-GAAP net income | $ 6,169 | $ 8,208 | $ 12,342 | $ 13,648 |
| Non-GAAP net income per share: diluted | $ 0.20 | $ 0.27 | $ 0.40 | $ 0.44 |
| Weighted average shares outstanding used in computing per share amounts | 30,957 | 30,399 | 31,043 | 30,679 |

Constant Contact, Inc.

Calculation of Free Cash Flow (unaudited)

(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net cash provided by operating activities | $ 10,917 | $ 11,600 | $ 27,024 | $ 28,246 |
| Subtract: | | | | |
| Acquisition of property and equipment | 4,432 | 4,092 | 15,076 | 12,921 |
| Free cash flow | $ 6,485 | $ 7,508 | $ 11,948 | $ 15,325 |

Constant Contact, Inc.

Consolidated Condensed Statements of Cash Flows (unaudited)

(In thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| **Cash flows from operating activities** | | |
| Net income | $ 6,377 | $ 4,784 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,013 | 10,567 |
| Amortization of premiums on investments | 430 | 493 |

| | | |
|---|---|---|
| Stock-based compensation expense | 10,847 | 8,643 |
| Provision for (recovery) of bad debts | 9 | (1) |
| Gain on sales of marketable securities | - | (13) |
| Deferred income taxes | 1,285 | 221 |
| Contingent consideration adjustment | (6,094) | - |
| Taxes paid related to net share settlement of restricted stock units | (376) | (154) |
| Change in operating assets & liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (129) | (7) |
| Prepaid expenses and other current assets | 1,624 | (108) |
| Other assets | (492) | (948) |
| Accounts payable | (3,985) | (3,058) |
| Accrued expenses | 1,078 | 4,741 |
| Deferred revenue | 2,450 | 3,272 |
| Other long-term liabilities | (13) | (186) |
| Net cash provided by operating activities | 27,024 | 28,246 |
| | | |
| **Cash flows from investing activities** | | |
| Purchases of marketable securities | (36,357) | (111,035) |
| Proceeds from maturities of marketable securities | 40,167 | 28,563 |
| Proceeds from sales of marketable securities | 40,600 | 81,727 |
| Acquisition of businesses, net of cash acquired | (68,296) | (15,000) |
| Acquisition of property and equipment | (15,076) | (12,921) |
| Net cash used in investing activities | (38,962) | (28,666) |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of common stock pursuant to exercise of stock options | 4,227 | 3,024 |
| Income tax benefit from the exercise of stock options | 84 | - |
| Proceeds from issuance of common stock pursuant to employee stock purchase plan | 536 | 435 |
| Net cash provided by financing activities | 4,847 | 3,459 |
| Effects of exchange rates on cash | 2 | - |
| Net (decrease) increase in cash and cash equivalents | (7,089) | 3,039 |
| Cash and cash equivalents, beginning of period | 49,589 | 32,892 |
| Cash and cash equivalents, end of period | $42,500 | $35,931 |
| | | |
| **Supplemental disclosure of non-cash investing and financing activities** | | |
| Capitalization of stock-based compensation | 730 | 477 |
| Fair value of contingent consideration in connection with acquisition included in accrued expenses and other long-term liabilities | 12,152 | - |

Constant Contact, Inc.

Consolidated Condensed Balance Sheets (unaudited)

(In thousands)

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 42,500 | $ 49,589 |
| Marketable securities | 45,655 | 90,523 |
| Accounts receivable, net | 226 | 58 |
| Prepaid expenses and other current assets | 7,316 | 8,891 |
| Total current assets | 95,697 | 149,061 |
| | | |
| Property and equipment, net | 37,163 | 34,263 |
| Restricted cash | 750 | 750 |
| Goodwill | 95,505 | 18,935 |
| Acquired intangible assets, net | 7,337 | 3,046 |
| Deferred tax assets | 12,299 | 12,960 |
| Other assets | 2,946 | 2,363 |
| Total assets | $ 251,697 | $ 221,378 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 4,969 | $ 8,906 |
| Accrued expenses | 14,389 | 10,515 |
| Deferred revenue | 32,043 | 28,983 |
| Total current liabilities | 51,401 | 48,404 |

| | | |
|---|---|---|
| Other long-term liabilities | 6,987 | 2,052 |
| Total liabilities | 58,388 | 50,456 |
| Common stock | 305 | 301 |
| Additional paid-in capital | 206,083 | 190,039 |
| Accumulated other comprehensive income | 23 | 61 |
| Accumulated deficit | (13,102) | (19,479) |
| Total stockholders' equity | 193,309 | 170,922 |
| Total liabilities and stockholders' equity | $ 251,697 | $ 221,378 |

## Contact:

Media Contact:
Constant Contact
Erika Tower, 781-482-7039
pr@constantcontact.com
or
Investor Contact:
Constant Contact
Jeremiah Sisitsky, 339-222-5740
ir@constantcontact.com

---