

Cornerstone OnDemand Inc
Form 10-K
March 01, 2013

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: 001-35098

Cornerstone OnDemand, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

1601 Cloverfield Blvd.
Santa Monica, California 90404

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (310) 752-0200

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

Title of each class
Common Stock, par value \$0.0001 per share

13-4068197
(I.R.S. Employer Identification Number)

Name of each exchange on which registered
The NASDAQ Stock Market LLC

(NASDAQ Global Market)

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

None

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 Securities Exchange Act of 1934 (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 Exchange Act 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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

The aggregate market value of voting stock held by non-affiliates of the registrant, as of June 30, 2012, the last day of registrant's most recently completed second fiscal quarter, was \$816,423,161 (based on the closing price for shares of the registrant's common stock as reported by the NASDAQ Global Market for the last business day prior to that date). On February 25, 2013, 50,834,704 shares of the registrant's common stock, \$0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Form 10-K is hereby incorporated by reference from the definitive Proxy Statement for our annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2012.

CORNERSTONE ONDEMAND, INC.
 2012 ANNUAL REPORT ON FORM 10-K
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TRADEMARKS

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, statements regarding our business strategies; anticipated future operating results and operating expenses; our ability to attract new clients to enter into subscriptions for our solutions; our ability to service those clients effectively and induce them to renew and upgrade their deployments of our solutions; our ability to expand our sales organization to address effectively the new industries, geographies and types of organizations we intend to target; our ability to accurately forecast revenue and appropriately plan our expenses; market acceptance of enhanced solutions; alternate ways of addressing talent management needs or new technologies generally by us and our competitors; continued acceptance of SaaS as an effective method for delivering talent management solutions and other business management applications; our ability to effectively integrate acquired businesses or technologies; the attraction and retention of qualified employees and key personnel; our ability to protect and defend our intellectual property; costs associated with defending intellectual property infringement and other claims; events in the markets for our solutions and alternatives to our solutions, as well as in the United States and global markets generally; future regulatory, judicial and legislative changes in our industry; and changes in the competitive environment in our industry and the markets in which we operate. In addition, forward-looking statements include statements involving trend analyses and statements including such words as “may,” “believe,” “could,” “anticipate,” “would,” “might,” “plan,” “expect,” and similar expressions or the negative of such terms or comparable terminology. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part I, Item 1A, “Risk Factors,” and in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

Item 1. Business

Overview

Cornerstone OnDemand, Inc. (“Cornerstone” or the “Company”) was incorporated on May 24, 1999 in the state of Delaware and began its principal operations in November 1999.

Cornerstone is a leading global provider of comprehensive talent management solutions delivered as Software-as-a-Service (“SaaS”). Our solutions are designed to enable organizations to meet the challenges they face in empowering and maximizing the productivity of their human capital. These challenges include developing employees throughout their careers, engaging all employees effectively, improving business execution, cultivating future leaders, and integrating with an organization’s extended enterprise of clients, vendors and distributors by delivering training, certification programs and other content. As of December 31, 2012, 1,237 clients used our core solution to empower more than 10.5 million users across 189 countries and 38 languages.

Our core solution, which serves enterprise and mid-market organizations, is a comprehensive and integrated cloud-based suite that delivers the following benefits:

• **Comprehensive Functionality.** Our suite consists of four clouds that address all stages of the employee lifecycle.

• These clouds include our Recruiting Cloud, Learning Cloud, Performance Cloud, and Extended Enterprise Cloud.

• **Flexible and Highly Configurable.** Clients can match the use of our software with their specific business processes and workflows. The flexibility of our suite allows our clients to deploy the four clouds individually or in any combination.

• **Easy-to-Use, Personalized User Interface.** Our suite employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the suite.

• **Software-as-a-Service Model Lowers the Total Cost of Ownership and Speeds Delivery.** Our suite is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware, and consulting services that are typical of hosted or on-premise software solutions.

Scalable to Meet the Needs of All Organizations. We have built a highly scalable, multi-tenant, multi-user architecture that supports the complex needs of global corporations yet is capable of supporting deployments of any size. We currently support multiple client deployments of over 150,000 users, including one client with over 350,000 users.

Continued Innovation through Collaborative Product Development. The vast majority of our thousands of software features were designed in collaboration with existing and prospective clients based on their specific functional requests.

In addition to our core solution, we offer Cornerstone for Small Business, or CSB, and Cornerstone for Salesforce. CSB is a talent management solution serving organizations with fewer than 500 employees. Cornerstone for Salesforce is a learning application developed natively on the Salesforce.com platform which allows organizations to provide seamless access to sales enablement and just-in-time training from within Salesforce.

Our clients include multi-national corporations, large domestic enterprises, mid-market companies, public sector organizations, higher education institutions, and non-profit entities, such as Advantage Sales & Marketing LLC, American International Group, Inc., Barclays Bank PLC, BMW AG, Carlson Restaurants Worldwide, Inc., Kaplan Higher Education Corporation, McKesson Corporation, Microsoft Corporation, Starwood Hotels & Resorts Worldwide Inc., Teach for America, Inc., U.S. Department of the Treasury, Virgin Media Limited, and Walgreen Co. While most of our deployments encompass most, or even all employees at a given client, some also include the employees of the extended enterprise of that client, such as employees of the client's customers, vendors and distributors.

We sell our solutions domestically and internationally through both direct and indirect channels, including direct sales teams throughout North America and Europe and distributor relationships with payroll, consulting and human resource, or HR, services companies.

We generally sell our solutions with multi-year agreements based on the number of employees. Clients generally are invoiced the consulting fees and the first year of the annual subscription fees upon contract execution. For amounts not invoiced in advance for multi-year subscriptions and consulting services, we invoice under various terms over the subscription period.

We have grown our business each of the last 11 years, and since 2002, we have averaged a 95% annual dollar retention rate, as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Metrics." Since 2001, our implied monthly recurring revenue from existing clients has been greater at the end of each year than at the beginning of the year. Our net revenue has grown to \$117.9 million in 2012 from \$73.0 million in 2011 and from \$43.7 million in 2010. Our gross revenue was \$117.9 million in 2012, compared to gross revenue of \$75.5 million in 2011 and \$46.6 million in 2010, before \$2.5 million and \$2.9 million reductions of revenue in 2011 and 2010, respectively. These reductions in revenue were related to non-cash charges for common stock warrants. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Offsets to Revenue" for additional information about common stock warrants that are accounted for as reductions of revenue.

The Market

Human capital is a major expense for all organizations. Based on the U.S. Bureau of Labor Statistics data as of September 2012, total compensation paid to the United States civilian workforce of approximately 155 million people exceeded \$9.5 trillion in 2012.

Accordingly, organizations have long sought to optimize their investments in human capital. We believe that organizations face six major challenges in maximizing the productivity of their internal and external human capital: Acquiring Talent. Corporate recruiting has evolved from a process that was principally driven by traditional sources such as inbound resume submissions and job board postings to one that is inherently social in nature, with organizations increasingly seeking to fill open positions by recruiting internally and by leveraging the external networks of their employees.

Developing Talent. Effectively orienting new hires and training employees throughout their careers to achieve their full potential, which has become more difficult with the Millennial generation entering the workforce, increasingly distributed workforces and heightened compliance requirements.

Engaging Employees. Connecting with employees at all levels and locations of the organization to keep them motivated, which has become increasingly difficult with the rise of globalization and telecommuting.

Improving Business Execution. Ensuring the effective alignment of employee behavior with the organization's objectives through goal management and employee assessment and development, as well as by linking compensation to performance.

Building a Leadership Pipeline. Identifying, grooming and retaining individuals for leadership positions at all levels and across all parts of the organization, which has become an acute challenge with the growing mobility and turnover

of employees and the impending retirements of the Baby Boomers.

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Integrating with the Extended Enterprise of Customers, Vendors and Distributors. Delivering training, certification programs and resources to the organization's network of customers, vendors, distributors and other third parties that constitute the organization's extended enterprise, which has become more difficult with the rise of outsourcing and increasing globalization.

Until the advent of software technology in the 1970's, written tracking systems were the only solution available for managing human capital. Software-based solutions such as spreadsheet-based tracking systems, custom-built software applications, third-party human resource information systems and third-party software applications provided by on-premise software vendors gradually became available. We refer to all of these approaches as hosted or on-premise solutions.

Recently, SaaS vendors dedicated to providing talent management software have emerged. We believe that just as organizations are increasingly choosing SaaS solutions for business applications such as sales force management, they are also increasingly adopting SaaS talent management solutions.

Many of the existing solutions suffer from one or more of the following shortcomings:

Narrow Functionality. As they only address specific stages of the employee lifecycle, many solutions lack sufficient breadth of functionality to maximize employee productivity effectively.

Limited Configurability. Most solutions are rigid and limit the ability of organizations to match their diverse workflows or to adopt their desired talent management practices.

Difficult to Use. Inputting, updating, analyzing and sharing information is often cumbersome, resulting in low employee adoption and usage.

Costly to Deploy, Maintain and Upgrade. Hosted or on-premise solutions require significant expense and time to deploy as well as require ongoing costs associated with IT support, network infrastructure, maintenance and upgrades.

Inability to Scale. Many solutions are designed to support the needs of smaller organizations and have difficulty meeting the complex functional requirements or the sizeable infrastructure demands of larger enterprises.

Given the limitations of existing offerings, we believe there is a market opportunity for comprehensive, integrated solutions that help organizations manage all aspects of their internal and external human capital and link talent management to their business strategy.

The Cornerstone OnDemand Answer

Our core solution is a comprehensive SaaS suite that consists of four integrated clouds for recruiting, learning management, performance management and extended enterprise.

Our suite includes a number of cross-cloud tools for talent management analytics and reporting, employee profile management, and e-learning content aggregation and delivery. We also provide consulting services for configuration, integration and training for our suite. We believe that our core solution delivers the following benefits:

Comprehensive Functionality. Our suite provides a comprehensive approach to talent management by offering four integrated clouds to address all stages of the employee lifecycle: recruiting, learning management, performance management and extended enterprise. Employees use our core solution throughout their careers to engage in performance processes such as goal management, performance reviews, competency assessments and compensatory reviews; to complete job-specific and compliance-related training; to evaluate potential career changes, development plans or succession processes; and to connect with co-workers by leveraging enterprise social networking tools.

Our clients can manage processes that span different talent management functions because our four clouds are tightly integrated. For example, our clients can automatically identify skill gaps as part of an employee's performance review, assign training to address those gaps and monitor the results of that training. Also, clients can identify high potential employees for future leadership positions and place them in executive development programs.

We believe our comprehensive, integrated suite allows our clients to align their talent management processes and practices with their broader strategic goals.

Flexible and Highly Configurable. Our suite offers substantial configurability that allows our clients to match the use of our software with most of their specific business processes and workflows. Our clients can configure our suite by business unit, division, department, region, location, job position, pay grade, cost center, or self-defined organizational unit. Our clients are able to adjust features to configure specific processes, such as performance review workflows or training approvals, to match their existing or desired practices. This high level of configurability means

that custom coding projects generally are not required to meet the diverse needs of our clients.

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Our clients can deploy the four clouds individually or in any combination. As a result, our clients have the flexibility to purchase solely those clouds that solve their immediate talent management needs and can incrementally deploy additional clouds in the future as their needs evolve.

Easy-to-Use, Personalized User Interface. Our suite employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the solution.

This ease of use limits the need for end-user training, which we believe increases user adoption rates and usage. While we typically train administrators, we have never been asked to conduct end-user training.

Software-as-a-Service Solution Lowers the Total Cost of Ownership and Speeds Delivery. Our suite is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware, and consulting that are typical of hosted or on-premise solutions. With a single code base to maintain, we are able to release improved functionality on a quarterly basis. This is a more rapid pace than most hosted or on-premise solution providers can afford to deliver.

Scalable to Meet the Needs of Organizations. Our suite has been used by Fortune 100 companies since 2001. While the complex needs of these global corporations required us to build a solution that can scale to support large, geographically-distributed employee bases, our suite is capable of supporting deployments of any size. Today we service 14 multi-national corporations with over 150,000 active users each. Our largest deployment is for over 350,000 users and our smallest is for 42 users.

Continued Innovation through Collaborative Product Development. We work collaboratively with our clients on an ongoing basis to develop almost every part of our suite. The vast majority of our thousands of software features were designed with existing and prospective clients based on their specific functional requests.

In addition to our core solution, we offer Cornerstone Small Business, or CSB, and Cornerstone for Salesforce. CSB is a talent management solution serving organizations with fewer than 500 employees. Cornerstone for Salesforce is a learning application developed natively on the Salesforce.com platform which allows organizations to provide seamless access to sales enablement and just-in-time training from within Salesforce.

Our Strategy

Our goal is to empower people, organizations, and communities with our comprehensive talent management solutions.

Key elements of our strategy include:

Retain and Expand Business with Existing Clients. We believe our existing installed base of clients offers a substantial opportunity for growth.

Focus on Client Success, Retention and Growth. We believe focusing on our clients' success will lead to our own success. We have developed a Client Success Framework that governs our operational model. Since 2002, we have averaged a 95% annual dollar retention rate. We strive to maintain our strong retention rates by continuing to provide our clients with high levels of service and support and increasing functionality.

Sell Additional Clouds to Existing Clients. We believe there is a significant growth opportunity in selling additional functionality to our existing clients. Many clients have added functionality subsequent to their initial deployments as they recognize the benefits of our comprehensive suite, and as a result, approximately half of our clients today utilize the equivalent of two or more clouds. Still, we believe significant upsell opportunity remains within our existing client base. Not only is our goal to sell these clients additional clouds and services, but we also believe there is an opportunity to sell many of them higher-level packages within the clouds they have already purchased.

Strengthen Current Sales Channels. We intend to increase our investments in both direct and indirect sales channels to acquire new clients.

Invest in Direct Sales in North America. We believe that the market for talent management is large and remains significantly underpenetrated. As a result, we plan to continue to grow both our enterprise and mid-market direct sales teams.

Expand and Strengthen Our Alliances. We intend to grow our distribution channels through key alliances, including agreements with global vendors such as Appirio, Inc., Automatic Data Processing, Inc., Ellucian Company L.P., Intelladon Corporation, Workday, Inc., and Xerox Corporation (formerly Affiliated Computer Services, Inc.), as well as the continued expansion of our regional relationships with distributors like CDP Group, Limited (China), Ceridian Canada Ltd. (Canada), Comms Learning Limited (United Kingdom), Grupo Datamace (Brazil), Infosys Limited

(India), ISQ eLearning (Portugal), Kalleo Learning (South Africa), Logica plc (Europe), Neoris de Mexico, S.A. de C.V. (Mexico), Neospheres SAS (France), QA Limited (United Kingdom), Sage Software, Inc. (North America), T2 Optimise PTY Ltd. (Asia Pacific), Talentech (Israel) and Xchanging HR Services Limited (United Kingdom).

Significantly Grow Our International Operation. We believe a substantial opportunity exists to continue to grow sales of our solutions internationally. We intend to grow our Europe, Middle-East and Africa, or EMEA, operations, which provide for direct sales, alliances, services and support in the region. We have grown our EMEA client base from one client at December 31, 2007 to 175 clients at December 31, 2012. Additionally, we have recently opened new offices in Asia-Pacific, and we intend to grow our operations to provide direct sales, alliances, services and support in that region.

Continue to Innovate and Extend Our Technological Leadership. We believe we have developed over the last decade a deep understanding of the talent management challenges our clients face. We continually collaborate with our clients to build extensive functionality that addresses their specific needs and requests. We plan to continue to leverage our expertise in talent management and client relationships to develop new applications, features and functionality which will enhance our solutions and expand our addressable market.

Make Cornerstone Built to Last. Our growth strategy since inception has been deliberate, disciplined and focused on long-term success. This has allowed us to weather periods of economic turmoil and significant changes in the markets we serve without undergoing layoffs or business contraction. We plan to take the same systematic approach in the future.

Acquisitions. On April 5, 2012, we completed the acquisition of Sonar Limited, a New Zealand cloud-based talent management solution provider serving small businesses globally. Sonar Limited's talent management solution was rebranded as the Cornerstone Small Business solution.

In the future, we may seek to acquire or invest in additional businesses, products or technologies that we believe will complement or expand our solutions, enhance our technical capabilities or otherwise offer growth opportunities. We are also committed to empowering our employees and the communities around us, in part demonstrated by our creation of the Cornerstone OnDemand Foundation.

Our Solutions

Our core solution is a comprehensive talent management suite that our clients use to find, develop, connect, evaluate and engage their human capital. We built this suite using a single code base and a multi-tenant, multi-user architecture that we host in our data centers. The suite consists of a collection of four integrated clouds, including the Recruiting Cloud, which we introduced in March 2012, as well as the Learning Cloud, Performance Cloud, and Extended Enterprise Cloud. These clouds can be purchased individually, and additional clouds can be added easily. We also offer a number of cross-cloud tools for analytics and reporting, employee profile management, employee on-boarding and e-learning content aggregation. In addition to our core solution, we offer Cornerstone Small Business and Cornerstone for Salesforce.

Our Clouds

Cornerstone Recruiting Cloud. Our Recruiting Cloud supports the modern ways that businesses source, recruit, hire and onboard new employees. The Recruiting Cloud is fully integrated with our existing talent management suite. It was built using Cornerstone's pure-cloud, multi-tenant architecture, leveraging a common platform, workflow engine, and reporting and administration model. This architecture provides clients with faster deployments, greater flexibility to adapt and change the application without cost or risk, and a seamless user experience across all Cornerstone applications. Clients use the Cornerstone Recruiting Cloud to:

- manage job requisitions;
- post jobs across both traditional job boards and social networks;
- create internal career centers and external career sites;
- manage and enhance employee referral programs;
- identify existing employee connections with candidates;
- quickly assess candidate skills and competencies;
- collaborate with hiring managers and employees throughout the screening process;
- search and compare internal and external candidates;
- build ongoing talent pools; and
- efficiently onboard new hires and accelerate time to productivity.

Cornerstone Learning Cloud. Our Learning Cloud helps clients deliver and manage enterprise training and development programs. It links employee development to other parts of the talent management lifecycle, including performance management and succession planning. The Cornerstone Learning Cloud supports all forms of training, including instructor-led training, e-learning and virtual classroom sessions. We have made tens of thousands of online training titles from over 15 global e-learning

vendors accessible through the Cornerstone Learning Cloud to help clients reduce overall training expense and cost-effectively migrate to blended learning curricula of online and instructor-led training. Clients use the Cornerstone Learning Cloud to:

- manage local and global compliance programs, including the tracking of any recurring or non-recurring license, designation, certification, or other compliance-related training and continuing education requirements;
- administer on-boarding programs and orientation for new hires;
- access thousands of e-learning classes from our existing off-the-shelf content providers;
- create, publish and deliver the client's own proprietary training content with our authoring tools;
- automate the administration of instructor-led training sessions, and launch and track virtual classrooms through integrations with third-party tools like Cisco Webex and Microsoft LiveMeeting;
- deliver sophisticated curricula that can include multiple sequenced parts, multiple types of training and enforcement of pre-requisites and follow-up assignments;
- report on costs, participation levels and evaluations of development programs through permission-based dashboards, standard reports and custom reports; and
- enable enterprise social collaboration through rich user profiles as well as the ability to participate in discussions, send messages, contribute to corporate wikis, author blogs, subscribe to information feeds and download audio and videocasts.

Cornerstone Performance Cloud. Our Performance Cloud allows clients to direct and measure performance at the individual, departmental and organizational level through ongoing competency management, organizational goal setting, performance appraisal, compensation management and development planning. Performance data can also be used by the Learning Cloud to set training priorities and to make informed workforce planning decisions. Clients use the Cornerstone Performance Cloud to:

- cascade, track and report goals across the organization to improve business execution and proactively manage organizational objectives;
- identify competency and skill gaps within an organization through manager and peer assessments, using either the client's own proprietary models or third-party competency models;
- automate the annual and interim review process, benefit from a configurable workflow engine to design review questions and steps, automatically include the reviewee's individual goals and competencies, provide managers with a comment assistant and calibrate review scores;
- develop a pay-for-performance culture, aligning compensation allocation decisions with actual employee performance and goal achievement;
- allow managers to work with employees to develop personalized development plans or dynamically create individualized development plans based on competency gaps;
- view dashboards or generate reports and meaningful data on every phase of the performance management cycle; and
- make informed decisions about succession planning, potential organizational changes and retention of high-potential employees at all hierarchical levels.

Cornerstone Extended Enterprise Cloud. Our Extended Enterprise Cloud helps clients extend talent management to their customers, vendors, and distributors. The Cornerstone Extended Enterprise Cloud enables clients to develop new profit centers, increase sales, cut support costs and boost channel productivity. Clients use the Cornerstone Extended Enterprise Cloud to:

- administer for-profit training programs to their own customers more effectively, providing them with a delivery tool, an automated registration system and e-commerce capabilities;
- improve strategic partner enablement with better training, online best practice centers and more readily-available information on products and services;
- increase customer engagement through social collaboration, virtual communities, educational programs and the enablement of customer-driven product innovation initiatives;
- manage distributor certification programs; and
- deliver training and targeted information to members of trade associations or other member-based organizations.

Cross-Cloud Tools

Our core solution has a number of capabilities that cross each of our four integrated clouds. These include: Analytics, Reporting, and Dashboards. Our core solution employs a proprietary reporting engine. In addition to approximately 130 included standard reports, this solution includes a custom reporting tool that allows clients to create highly specific reports. This solution also includes dashboard technology to present graphical views of complex data.

MyTeam. MyTeam enables managers to access all employee information, development activities, compliance status, performance data, succession plans, social collaboration updates and action items for team members from a single, highly graphical view. Managers may view information for their direct reporting employees or other employees in their organization.

Talent Profiles. Managers can access integrated Talent Profiles to review key employee data in several locations across our core solution. Talent Profiles function as employee identification cards, detailing user record information, performance ratings, succession management data, enterprise social collaboration activity and informal manager comments. These profiles are available throughout this solution where quick access to information is desired, including in performance reviews, organizational charts, succession plans, compensation plans and user record editing.

E-Learning Content Aggregation. We have entered into distributor relationships with many off-the-shelf e-learning content vendors. This enables us to provide access to tens of thousands of e-learning classes for distribution across our core solution. E-learning, like other forms of training, can be delivered in conjunction with development plans, competency assessments, succession planning scenarios, talent pools and career path exploration.

Cornerstone Mobile. Cornerstone Mobile allows clients to access our core talent management suite from their mobile device. Key capabilities of Cornerstone Mobile include enabling clients to view employee profiles, search the employee directory, and access just-in-time video training.

Consulting Services

We offer comprehensive services to our clients to assist in the successful implementation of our solutions and to optimize our clients' use of our solutions during the terms of their engagements. Our consulting services are offered on a time-and-material basis at a blended hourly rate for all services or at fixed fees.

With our SaaS model, we have eliminated the need for lengthy and complex technology integrations, such as customizing software code, deploying equipment or maintaining unique delivery models or hardware infrastructure for individual clients. As a result, we typically deploy our core solution in significantly less time than required for similar deployments of hosted or on-premise software. Our consulting services include:

Implementation Services. We deploy our core solution to clients through a documented process of discovery, design, and configuration. Most enterprise implementations require services for systems integration, data loading, and software configuration, as well as support with change management. For mid-market clients, this solution can be implemented in a matter of weeks. For enterprise clients, implementation typically takes three to four months.

Integration Services. We provide a range of services and self-service tools to load data into a client's portal and to integrate our core solution with our client's existing systems. Integration services include data feeds to and from HR information systems and enterprise resource planning systems, single sign on, historical data loads and integration of proprietary content.

Content Services. We offer e-learning content consulting services, including training needs analysis, content selection and curriculum design. In addition, we help clients manage their e-learning vendors, and we maintain an aggregated library of third-party online training classes in support of our clients.

Business Consulting Services. We provide business consulting services for existing and prospective clients, such as business process mapping, guidance on industry best practices and project management services. We expect to add additional business consulting services in the future based on client demand.

- **Educational Services.** We provide product training to our clients during implementations and on an

ongoing basis. We offer multiple forms of training, including custom classroom training, virtual instructor-led training, and asynchronous online training. Our training covers all aspects of administering and managing our core solution. In addition, our Educational Services teSPLAY: inline; FONT-WEIGHT: bold; FONT-SIZE: 10pt; FONT-FAMILY: times new roman">DIVERSIFIED TELECOMMUNICATION SERVICES – 2.0%

100,000	Telefonica	1,635,993
	Total Investments in Spain (cost \$3,572,668)	3,941,166

Shares	Description	Value(a)
INVESTMENTS IN NORWAY – 4.6%		
	ENERGY EQUIPMENT & SERVICES – 4.6%	
24,000	Fred Olsen Energy	\$ 939,304
100,000	TGS Nopec Geophysical	2,735,957
		3,675,261
	Total Investments in Norway (cost \$2,836,205)	3,675,261
INVESTMENTS IN AUSTRIA – 3.2%		
	CHEMICALS – 1.0%	
7,000	Lenzing*	757,777
	MACHINERY – 2.2%	
18,000	Andritz	1,758,963
	Total Investments in Austria (cost \$2,274,691)	2,516,740
INVESTMENTS IN LUXEMBOURG – 2.5%		
	MEDIA – 2.5%	
80,000	SES	1,982,102
	Total Investments in Luxembourg (cost \$2,097,894)	1,982,102
INVESTMENTS IN FINLAND – 2.0%		
	INSURANCE – 2.0%	
56,000	Sampo	1,616,045
	Total Investments in Finland	1,616,045

(cost \$1,417,010)

INVESTMENTS IN
SWITZERLAND – 1.9%

800	PROFESSIONAL SERVICES – 1.9% SGS	1,554,154
	Total Investments in Switzerland (cost \$1,300,925)	1,554,154

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THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — MARCH 31, 2012 (unaudited) (continued)

Shares	Description	Value(a)
INVESTMENTS IN DENMARK – 1.3%		
	CONSTRUCTION & ENGINEERING – 1.3%	
15,000	FLSmith & Co.†	\$ 1,051,332
	Total Investments in Denmark (cost \$1,140,720)	1,051,332
INVESTMENTS IN CYPRUS – 1.0%		
	ENERGY EQUIPMENT & SERVICES – 1.0%	
100,000	ProSafe	793,620
	Total Investments in Cyprus (cost \$826,887)	793,620
INVESTMENTS IN ITALY – 0.8%		
	COMMERCIAL BANKS – 0.8%	
120,000	UniCredit	600,224
	Total Investments in Italy (cost \$1,228,031)	600,224
	Total Investments in Common and Preferred Stocks – 100.1% (cost \$70,904,303)	79,723,002
SECURITIES LENDING COLLATERAL – 2.8%		
	Daily Assets Fund Institutional, 0.27%	
2,211,695	(cost \$2,211,695)(b)(c)	2,211,695
CASH EQUIVALENTS – 0.9%		
	Central Cash Management Fund, 0.11%	
680,041	(cost \$680,041)(c)	680,041
	Total Investments – 103.8% (cost \$73,796,039)**	82,614,738
	Other Assets and Liabilities, Net – (3.8%)	(3,003,113)
	NET ASSETS – 100.0%	\$ 79,611,625

For information on the Fund's policies regarding the valuation of investments and other significant accounting policies, please refer to the Fund's most recent semi-annual or annual financial statements.

* Non-income producing security.

** The cost for federal income tax purposes was \$73,917,188. At March 31, 2012, net unrealized appreciation for all securities based on tax cost was \$8,697,550. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$11,941,151 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,243,601.

† All or a portion of these securities were on loan. The value of all securities loaned at March 31, 2012 amounted to \$2,119,815, which is 2.7% of net assets.

(a) Value stated in U.S. dollars.

(b) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

(c) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

For purposes of its industry concentration policy, the Fund classifies issuers of portfolio securities at the industry sub-group level. Certain of the categories in the above Schedule of Investments consist of multiple industry sub-groups or industries.

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — MARCH 31, 2012 (unaudited) (continued)

At March 31, 2012, open futures contracts purchased were as follows:*

	Currency	Expiration Date	Contracts	Notional Value (\$)	Unrealized Depreciation (\$)
Euro Stoxx Banks Index	EUR	June 2012	50	373,447	(27,966)
Total unrealized depreciation					(27,966)

Currency Abbreviations

EUR Euro

* Cash collateral in the amount of \$42,947 was pledged to cover margin requirements for open futures contracts as of March 31, 2012.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of March 31, 2012 in valuing the Fund's investments.

Category	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments(d)				
Germany	\$32,610,809	\$ —	\$ —	\$32,610,809
France	17,340,092	—	—	17,340,092
United Kingdom	7,282,813	—	—	7,282,813
Netherlands	4,758,644	—	—	4,758,644
Spain	3,941,166	—	—	3,941,166
Norway	3,675,261	—	—	3,675,261

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Austria	2,516,740	—	—	2,516,740
Luxembourg	1,982,102	—	—	1,982,102
Finland	1,616,045	—	—	1,616,045
Switzerland	1,554,154	—	—	1,554,154
Denmark	1,051,332	—	—	1,051,332
Cyprus	793,620	—	—	793,620
Italy	600,224	—	—	600,224
Short-Term Instruments(d)	2,891,736	—	—	2,891,736
Derivatives(e)	(27,966)	—	—	(27,966)
Total	\$82,586,772	\$	\$	\$82,586,772

There have been no transfers between Level 1 and Level 2 fair value measurements during the period ended March 31, 2012.

(d) See Schedule of Investments for additional detailed categorizations.

(e) Derivatives included unrealized appreciation (depreciation) on futures contracts.

ITEM 2. CONTROLS AND PROCEDURES

(a) The Chief Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on the evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) There have been no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting.

ITEM 3. EXHIBITS

Certification pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is filed and attached hereto as Exhibit 99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: The European Equity Fund, Inc.

By: /s/W. Douglas Beck
W. Douglas Beck
President

Date: May 24, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/W. Douglas Beck
W. Douglas Beck
President

Date: May 24, 2012

By: /s/Paul Schubert
Paul Schubert

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Chief Financial Officer and Treasurer

Date:

May 24, 2012