Q2 Holdings, Inc.
Form 10-Q
August 03, 2017
Table of Contents

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

FORM 10-Q

(Mark One),

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017.
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Q2 Holdings, Inc.
(Exact name of Registrant as Specified in Its Charter)

Delaware	001-36350	20-2706637
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification No.)

13785 Research Blvd., Suite 150
Austin, Texas 78750
(512) 275-0072
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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 ý No o
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 ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 41,286,960 shares of Common Stock, $0.0001 par value per share as of July 31, 2017.

Table of Contents

TABLE OF CONTENTS

		PAGE
PART I: FINANCIAL INFORMATION		
Item 1.	Financial Statements.	3
	Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	3
	Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (unaudited)	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	39
Item 4.	Controls and Procedures.	40
PART II: OTHER INFORMATION		
Item 1.	Legal Proceedings.	41
Item 1A.	Risk Factors.	41
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	41
Item 3.	Defaults Upon Senior Securities.	42
Item 4.	Mine Safety Disclosures.	42
Item 5.	Other Information.	42
Item 6.	Exhibits.	42
SIGNATURES		43

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.

Q2 HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 34,471	$ 54,873
Restricted cash	2,915	1,315
Investments	44,185	42,249
Accounts receivable, net	15,012	12,240
Prepaid expenses and other current assets	4,074	3,215
Deferred solution and other costs, current portion	8,182	8,839
Deferred implementation costs, current portion	3,400	2,938
Total current assets	112,239	125,669
Property and equipment, net	31,565	27,480
Deferred solution and other costs, net of current portion	13,213	11,125
Deferred implementation costs, net of current portion	8,276	8,096
Intangible assets, net	14,718	15,208
Goodwill	12,876	12,876
Other long-term assets	513	526
Total assets	$ 193,400	$ 200,980
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,306	$ 4,231
Accrued liabilities	5,863	8,822
Accrued compensation	8,731	16,035
Deferred revenues, current portion	32,057	30,123
Total current liabilities	51,957	59,211
Deferred revenues, net of current portion	30,500	31,707
Deferred rent, net of current portion	10,010	9,466
Other long-term liabilities	586	361
Total liabilities	93,053	100,745
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock: $0.0001 par value; 5,000 shares authorized; no shares issued or outstanding as of June 30, 2017 and December 31, 2016	—	—
Common stock: $0.0001 par value; 150,000 shares authorized; 41,246 issued and 41,225 shares outstanding as of June 30, 2017 and 40,441 shares issued and 40,425 shares outstanding as of December 31, 2016	4	4
Treasury stock at cost: 21 shares at June 30, 2017 and 16 shares at December 31, 2016	(597)	(417)
Additional paid-in capital	241,835	226,485
Accumulated other comprehensive loss	(84)	(54)
Accumulated deficit	(140,811)	(125,783)
Total stockholders' equity	100,347	100,235

Total liabilities and stockholders' equity	$ 193,400	$ 200,980

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

Table of Contents

Q2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$47,625	$36,005	$92,159	$69,764
Cost of revenues[1]	24,328	18,870	47,100	36,684
Gross profit	23,297	17,135	45,059	33,080
Operating expenses:				
Sales and marketing[1]	11,096	9,611	20,974	17,818
Research and development[1]	9,922	7,830	19,573	15,733
General and administrative[1]	9,268	7,437	17,720	14,858
Acquisition related costs	351	1,476	699	2,958
Amortization of acquired intangibles	373	368	744	736
Unoccupied lease charges	—	33	—	33
Total operating expenses	31,010	26,755	59,710	52,136
Loss from operations	(7,713)	(9,620)	(14,651)	(19,056)
Other income (expense):				
Interest and other income	129	87	237	170
Interest and other expense	(20)	(172)	(94)	(241)
Total other income (expense), net	109	(85)	143	(71)
Loss before income taxes	(7,604)	(9,705)	(14,508)	(19,127)
Provision for income taxes	(217)	(3)	(353)	(233)
Net loss	$(7,821)	$(9,708)	$(14,861)	$(19,360)
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale investments	(29)	16	(30)	105
Comprehensive loss	$(7,850)	$(9,692)	$(14,891)	$(19,255)
Net loss per common share, basic and diluted	$(0.19)	$(0.25)	$(0.36)	$(0.49)
Weighted average common shares outstanding:				
Basic and diluted	41,064	39,434	40,848	39,229

---

[1] Includes stock-based compensation expenses as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenues	$819	$455	$1,543	$861
Sales and marketing	812	492	1,443	927
Research and development	1,033	652	1,978	1,284
General and administrative	2,358	1,258	4,255	2,390
Total stock-based compensation expenses	$5,022	$2,857	$9,219	$5,462

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

Table of Contents

Q2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(14,861)	$(19,360)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred implementation, solution and other costs	3,514	3,192
Depreciation and amortization	7,227	5,871
Amortization of debt issuance costs	28	48
Amortization of premiums on investments	151	221
Stock-based compensation expenses	9,219	5,462
Deferred income taxes	234	139
Allowance for sales credits	34	43
Loss on disposal of long-lived assets	4	102
Unoccupied lease charges	—	33
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,806)	(1,608)
Prepaid expenses and other current assets	(853)	(3,884)
Deferred solution and other costs	(2,896)	(3,229)
Deferred implementation costs	(2,689)	(3,062)
Other long-term assets	(82)	(20)
Accounts payable	1,197	967
Accrued liabilities	(7,827)	5,030
Deferred revenues	727	4,509
Deferred rent and other long-term liabilities	(581)	3,157
Net cash used in operating activities	(10,260)	(2,389)
Cash flows from investing activities:		
Purchases of investments	(15,778)	(20,618)
Maturities of investments	13,659	20,959
Purchases of property and equipment	(7,625)	(8,745)
Business combinations and asset acquisitions, net of cash acquired	(3,816)	(95)
Capitalized software development costs	(762)	(1,190)
Purchases of intangible assets	—	(138)
Increase in restricted cash	(1,600)	—
Net cash used in investing activities	(15,922)	(9,827)
Cash flows from financing activities:		
Payments on financing obligations	—	(4,890)
Payments on capital lease obligations	—	(161)
Proceeds from the issuance of common stock, net of issuance costs	—	(8)
Proceeds from exercise of stock options to purchase common stock	5,961	2,911
Shares acquired to settle the exercise of stock options	(181)	(159)
Net cash provided by (used in) financing activities	5,780	(2,307)
Net decrease in cash and cash equivalents	(20,402)	(14,523)
Cash and cash equivalents, beginning of period	54,873	67,049
Cash and cash equivalents, end of period	$34,471	$52,526

Supplemental disclosures of cash flow information:		
Cash paid for taxes	$128	$72
Cash paid for interest	$68	$120

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

Table of Contents

Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

1. Organization and Description of Business

Q2 Holdings, Inc. and its wholly-owned subsidiaries, collectively the Company, is a leading provider of secure, cloud-based digital banking solutions. The Company enables regional and community financial institutions, or RCFIs, to deliver a robust suite of integrated digital banking services to more effectively engage with their consumer and commercial account holders who expect to bank anytime, anywhere and on any device. The Company delivers its solutions to the substantial majority of its customers using a software-as-a-service, or SaaS, model under which its RCFI customers pay subscription fees for the use of the Company's solutions. The Company was incorporated in Delaware in March 2005 and is a holding company that owns 100% of the outstanding capital stock of Q2 Software, Inc. The Company's headquarters are located in Austin, Texas.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

As used in this report, the terms "we," "us," "our," or the "Company" refer to Q2 Holdings, Inc. and its direct and indirect wholly-owned subsidiaries. These interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, and Securities and Exchange Commission, or SEC, requirements for interim financial statements. The interim unaudited condensed consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

In the Company's opinion, the accompanying interim unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation. Certain information and disclosures normally included in the notes to the annual consolidated financial statements prepared in accordance with GAAP have been omitted from these interim unaudited condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2016, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on February 21, 2017. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017 or for any other period.

Use of Estimates

The preparation of the accompanying interim unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the interim unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses. Significant items subject to such estimates include revenue recognition, stock-based compensation, the carrying value of goodwill, the fair value of acquired intangibles, the capitalization of software development costs, the useful lives of property and equipment and long-lived intangible assets, and income taxes. In accordance with GAAP, management bases its estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments acquired with an original maturity of ninety days or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost or fair value based on the underlying security.

Restricted Cash

Restricted cash consists of deposits held as collateral for the Company's secured letters of credit issued in place of the security deposit for the Company's corporate headquarters.

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

Investments

Investments consist primarily of U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and money market funds. All investments are considered available for sale and are carried at fair value.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, investments and accounts receivable. The Company's cash and cash equivalents, restricted cash and investments are placed with high credit quality financial institutions and issuers, and at times may exceed federally-insured limits. The Company has not experienced any loss relating to cash and cash equivalents or restricted cash in these accounts. The Company provides credit, in the normal course of business, to a number of its customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. No individual customer accounted for 10% or more of revenues for each of the three and six months ended June 30, 2017 and 2016. No individual customer accounted for 10% or more of accounts receivable, net, as of June 30, 2017, and a single customer accounted for 15% of accounts receivable, net, as of December 31, 2016.

Accounts Receivable

Accounts receivable are stated at net realizable value, including both billed and unbilled receivables to customers. Unbilled receivable balances arise primarily when the Company provides services in advance of billing for these services and also when the Company earns revenues based on the number of registered users and the number of bill-pay and certain other transactions that registered users perform on the Company's digital banking solutions in excess of the levels included in the Company's minimum subscription fee. Generally, billing for revenues related to the number of registered users and the number of transactions processed by the Company's registered users occurs one month in arrears. Included in the accounts receivable balances as of June 30, 2017 and December 31, 2016 were unbilled receivables of $2.0 million and $1.2 million, respectively.

The Company assesses the collectability of outstanding accounts receivable on an ongoing basis and maintains an allowance for doubtful accounts for accounts receivable deemed uncollectable. As of June 30, 2017 and December 31, 2016, the Company did not provide for an allowance for doubtful accounts, as all amounts outstanding were deemed collectable. Historically, the Company's collection experience has not varied significantly, and bad debt expenses have been insignificant.

The Company maintains a reserve for estimated sales credits issued to customers for billing disputes or other service-related reasons. This allowance is recorded as a reduction against current period revenues and accounts receivable. In estimating this allowance, the Company analyzes prior periods to determine the amounts of sales credits issued to customers compared to the revenues in the period that related to the original customer invoice. This estimate is analyzed quarterly and adjusted as necessary. The allowance for sales credits was $0.3 million as of June 30, 2017 and $0.2 million as of December 31, 2016.

Deferred Implementation Costs

The Company capitalizes certain personnel and other costs, such as employee salaries, benefits and the associated payroll taxes that are direct and incremental to the implementation of its solutions. The Company analyzes implementation costs that may be capitalized to assess their recoverability, and only capitalizes costs that it anticipates to be recoverable. The Company assesses the recoverability of its deferred implementation costs by comparing the greater of the amount of the non-cancellable portion of a customer's contract and the non-refundable customer prepayments received as it relates to the specific implementation costs incurred. The Company begins amortizing the deferred implementation costs for an implementation once the revenue recognition criteria have been met and the Company amortizes those deferred implementation costs ratably over the remaining term of the customer agreement. The portion of deferred implementation costs expected to be amortized during the succeeding twelve-month period is recorded in current assets as deferred implementation costs, current portion, and the remainder is recorded in long-term assets as deferred implementation costs, net of current portion.

Deferred Solution and Other Costs

The Company capitalizes sales commissions and other third-party costs, such as third-party licenses and maintenance related to its customer agreements. The Company capitalizes sales commissions because the commission charges are so closely related to the revenues from the non-cancellable customer agreements that they should be recorded as an asset and charged to expense over the same period that the related revenue is recognized. The Company begins amortizing deferred solution and

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

other costs for a particular customer agreement once the revenue recognition criteria are met and amortizes those deferred costs over the remaining term of the customer agreement. The Company analyzes solution and other costs that may be capitalized to assess their recoverability and only capitalizes costs that it anticipates to be recoverable. The portion of capitalized costs expected to be amortized during the succeeding twelve-month period is recorded in current assets as deferred solution and other costs, current portion, and the remainder is recorded in long-term assets as deferred solution and other costs, net of current portion.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets. Maintenance and repairs that do not extend the life of or improve an asset are expensed in the period incurred.

The estimated useful lives of property and equipment are as follows:

Computer hardware and equipment	3 - 5 years
Purchased software and licenses	3 - 5 years
Furniture and fixtures	7 years
Leasehold improvements	Lesser of estimated useful life or lease term

Purchase Price Allocation, Intangible Assets, and Goodwill

The purchase price allocation for business combinations and asset acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The Company early adopted Accounting Standards Update, or ASU, No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" as of January 1, 2017. Under ASU 2017-01, the Company first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the single asset or group of assets, as applicable, is not a business. If it’s not met, the Company determines whether the single asset or group of assets, as applicable, meets the definition of a business.

In connection with the Company's acquisitions of Centrix Solutions, Inc., or Centrix, in July 2015, Smarty Pig, LLC, doing business as Social Money, or Social Money, in November 2015, and an asset purchase in January 2017, the Company recorded certain intangible assets, including acquired technology, customer relationships, trademarks, non-compete agreements and assembled workforce. Amounts allocated to the acquired intangible assets are being amortized on a straight-line basis over the estimated useful lives. The Company periodically reviews the estimated useful lives and fair values of its identifiable intangible assets, taking into consideration any events or circumstances which might result in a diminished fair value or revised useful life.

The excess purchase price over the fair value of assets acquired is recorded as goodwill. The Company tests goodwill for impairment annually in October, or whenever events or changes in circumstances indicate an impairment may have occurred. Because the Company operates in a single reporting unit, the impairment test is performed at the consolidated entity level by comparing the estimated fair value of the Company to the carrying value of the Company. The Company estimates the fair value of the reporting unit using a "step one" analysis using a fair-value-based approach based on the market capitalization or a discounted cash flow analysis of its projected future results to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Determining the fair value of goodwill is subjective in nature and often involves the use of estimates and assumptions including, without limitation, use of estimates of future prices and volumes for the Company’s products, capital needs, economic trends and other factors which are inherently difficult to forecast. If actual results, or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, the Company could incur impairment charges in a future period.

8

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

Deferred Revenues

Deferred revenues primarily consist of amounts that have been billed to or received from customers in advance of revenue recognition and prepayments received from customers in advance for implementation, maintenance and other services, as well as initial subscription fees. The Company recognizes deferred revenues as revenues when the services are performed and the corresponding revenue recognition criteria are met. Customer prepayments are generally applied against invoices issued to customers when services are performed and billed. Deferred revenues that are expected to be recognized as revenues during the succeeding twelve-month period are recorded in current liabilities as deferred revenues, current portion, and the remaining portion is recorded in long-term liabilities as deferred revenues, net of current portion.

Revenues

All revenue-generating activities are directly related to the sale, implementation and support of the Company's solutions within a single operating segment. The Company derives the substantial majority of its revenues from subscription fees for the use of its solutions hosted in the Company's data centers as well as revenues for implementation and customer support services related to the Company's solutions. A small portion of the Company's customers host the Company's solutions in their own data centers under term license and maintenance agreements, and the Company recognizes the corresponding revenues ratably over the term of those customer agreements.

Revenues are recognized net of sales credits and allowances. The Company begins to recognize revenues for a customer when all of the following criteria are satisfied:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

Determining whether and when these criteria have been met can require significant judgment and estimates. In general, revenue recognition commences when the Company's solutions are implemented and made available to the customers.

The Company's software solutions are available for use in hosted application arrangements under subscription fee agreements. Subscription fees from these applications, including related customer support, are recognized ratably over the customer agreement term beginning on the date the solution is made available to the customer. Amounts that have been invoiced are recorded in accounts receivable and deferred revenues or revenues, depending on whether the Company's revenue recognition criteria have been met.

The Company considers subscription fees to be fixed or determinable unless the fees are subject to refund or adjustment or are not payable within the Company's standard payment terms. In determining whether collection of subscription fees is reasonably assured, the Company considers financial and other information about customers, such as a customer's current credit-worthiness and payment history over time. Historically, bad debt expenses have been insignificant.

The Company enters into arrangements with multiple-deliverables that generally include multiple subscription and implementation services. Additional agreements with existing customers that are not in close proximity to the original arrangements are treated as separate contracts for accounting purposes.

For multiple-deliverable arrangements, arrangement consideration is allocated to deliverables based on their relative selling price. In order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. The Company's subscription services have standalone value as such services are often sold separately. In determining whether implementation services have standalone value apart from the subscription services, the Company considers various factors including the availability of the services from other vendors. To date, the Company has concluded that the implementation services included in multiple-deliverable arrangements do not have standalone value. As a result, when implementation services are sold in a multiple-deliverable arrangement, the Company defers any arrangement fees for implementation services and

recognizes such amounts ratably over the period of performance for the initial agreement term.

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence of selling price, or VSOE, if available, third-party evidence of selling price, or TPE, if VSOE is not available or best estimate of selling price, or BESP, if neither VSOE nor TPE is available. The Company has not established VSOE for its subscription services due to lack of pricing consistency, the introduction of new services and other factors. The Company has determined that TPE is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third-party pricing information. Accordingly, the Company uses BESP to determine the relative selling price. The amount of revenue allocated to delivered items is limited by contingent revenues.

The Company determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of its transactions, customer characteristics, price lists, go-to-market strategy, historical standalone sales and agreement prices. As the Company's go-to-market strategies evolve, it may modify its pricing practices in the future, which could result in changes in relative selling prices, and include both VSOE and BESP.

Subscription Fee Revenues

The Company's solutions are available as hosted solutions under subscription fee agreements without licensing perpetual rights to the software. Subscription fees from a hosted solution are recognized monthly over the customer agreement term beginning on the date the Company's solution is made available to the customer. Additional fees for monthly usage above the levels included in the standard subscription fee, which include fees for transactions processed during the period, are recognized as revenue in the month when the usage amounts are determined and reported. Any revenues related to upfront implementation services are recognized ratably over the same customer agreement term. Amounts that have been invoiced are recorded in accounts receivable and deferred revenues or revenues, depending on whether the revenue recognition criteria have been met.

Professional Services Revenues

When professional services are not combined with subscription services or term licenses as a single unit of accounting, these professional services revenues are recognized as the services are performed.

Certain out-of-pocket expenses billed to customers are recorded as revenues rather than an offset to the related expense. Revenues recorded from out-of-pocket expense reimbursements totaled approximately $0.4 million for each of the three months ended June 30, 2017 and 2016, and $0.8 million for each of the six months ended June 30, 2017 and 2016. The out-of-pocket expenses are reported in cost of revenues.

Term Licenses and Maintenance Revenues

A small portion of the Company's customers host and manage the Company's solutions on-premises or in third-party data centers under term license and maintenance agreements. Term licenses sold with maintenance, which entitles the customer to technical support and upgrades and updates to the software made available on a when-and-if-available basis, are accounted for under Accounting Standards Codification, or ASC, 985-605, "Software Revenue Recognition." The Company does not have VSOE of fair value for the maintenance and professional services so the entire arrangement consideration is recognized monthly over the term of the software license when all of the other revenue recognition criteria have been met. Revenues from term licenses and maintenance agreements were not significant in the periods presented.

Cost of Revenues

Cost of revenues is comprised primarily of salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, for employees providing services to the Company's customers. Costs associated with these services include the costs of the Company's implementation, customer support, data center and customer training personnel, as well as a reclassification of costs related to research and development personnel who perform implementation and customer support services. Cost of revenues also includes the direct costs of bill-pay and other third-party intellectual property included in the Company's solutions, the amortization of deferred solution and

services costs, co-location facility costs and depreciation of the Company's data center assets, an allocation of general overhead costs and referral fees. Direct costs of third-party intellectual property include amounts paid for third-party licenses and related maintenance that are incorporated into the Company's software and the amortization of acquired technology from the Company's recent acquisitions, with the costs amortized to cost of revenues over the useful lives of the purchased assets.

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

The Company capitalizes certain personnel costs directly related to the implementation of its solutions to the extent those costs are considered to be recoverable from future revenues. The Company amortizes the costs for a particular implementation once revenue recognition commences, and the Company amortizes those implementation costs over the remaining term of the customer agreement. Other costs not directly recoverable from future revenues are expensed in the period incurred. The Company capitalized implementation costs in the amount of $1.4 million and $1.6 million during the three months ended June 30, 2017 and 2016, respectively, and $2.7 million and $3.1 million during the six months ended June 30, 2017 and 2016, respectively.

Software Development Costs

Software development costs include salaries and other personnel-related costs, including employee benefits and bonuses attributed to programmers, software engineers and quality control teams working on the Company's software solutions. The costs related to software development that are incurred between reaching technological feasibility of a solution and the point at which the solution is ready for general release are capitalized and are included in intangible assets, net on the condensed consolidated balance sheet. Capitalized software development costs are computed on an individual product basis, and products available for market are amortized to cost of revenues over the products' estimated economic lives. The Company recognized $0.1 million and $0.2 million of amortization of capitalized software development costs for the three and six months ended June 30, 2017 as two of the related individual products reached general release in the first half of 2017. The Company capitalized software development costs in the amount of $0.2 million and $0.6 million during the three months ended June 30, 2017 and 2016, respectively, and $0.8 million and $1.2 million during the six months ended June 30, 2017 and 2016, respectively.

Research and Development Costs

Research and development costs include salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, third-party contractor expenses, software development tools, an allocation of facilities and depreciation expenses and other related expenses incurred in developing new solutions and upgrading and enhancing existing solutions. Research and development costs are expensed as incurred.

Advertising

All advertising costs of the Company are expensed the first time the advertising takes place. Advertising costs were $0.1 million for each of the three months ended June 30, 2017 and 2016 and were $0.3 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively.

Sales Tax

The Company presents sales taxes and other taxes collected from customers and remitted to governmental authorities on a net basis and, as such, excludes them from revenues.

Comprehensive Loss

Comprehensive loss includes net loss as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. Other comprehensive loss consists of net loss and unrealized gains and losses on available-for-sale investments.

Stock-Based Compensation

Stock options and restricted stock units awarded to employees, directors and consultants are measured at fair value at each grant date. The Company recognizes compensation expense ratably over the requisite service period of the option or restricted stock unit award. As of January 1, 2017, the Company no longer uses a forfeiture rate to recognize compensation expense as a result of the adoption of ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." Generally, options vest 25% on the one-year anniversary of the grant date with the balance vesting monthly over the following 36 months, and restricted stock unit awards vest in four annual installments of 25%.

The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury

securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

presumed to be the mid-point between the vesting date and end of the contractual term. The Company used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Due to the Company's limited history as a public company, expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The Company assumed no dividend yield because it does not expect to pay dividends in the near future, which is consistent with the Company's history of not paying dividends.

The Company values restricted stock units at the closing market price on date of grant, and recognizes compensation expense ratably over the requisite service period of the restricted stock unit award.

Income Taxes

Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss carryforwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. The Company assesses the likelihood that deferred tax assets will be realized and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. To date, the Company has provided a full valuation allowance against its deferred tax assets as it believes the objective and verifiable evidence of its historical pretax net losses outweighs any positive evidence of its forecasted future results. Although the Company believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business. The Company will continue to monitor the positive and negative evidence, and it will adjust the valuation allowance as sufficient objective positive evidence becomes available. No tax related impact was recorded in the financial statements as a result of the adoption of ASU No. 2016-09.

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. Through June 30, 2017, the Company has not identified any material uncertain tax positions for which liabilities would be required to be recorded.

Basic and Diluted Net Loss per Common Share

The following table sets forth the computations of net loss per share for the periods listed:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerators:				
Net loss	$(7,821)	$(9,708)	$(14,861)	$(19,360)
Denominators:				
Weighted-average common shares outstanding, basic and diluted	41,064	39,434	40,848	39,229
Net loss per common share, basic and diluted	$(0.19)	$(0.25)	$(0.36)	$(0.49)

Due to net losses for the three and six months ended June 30, 2017 and 2016, basic and diluted net loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive. The following table sets forth the anti-dilutive common share equivalents that were excluded for the periods listed:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options and restricted stock units	5,751	5,752	5,751	5,752

12

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," or ASU 2014-09, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," or ASU 2015-14, that deferred the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. In 2016, the FASB issued the following amendments to ASC 606: ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the implementation guidance on principal versus agent considerations; ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which clarifies guidance on identification of performance obligations and licensing implementation; ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which provides clarifying guidance on assessing collectibility, presentation of sales taxes, noncash consideration, contract modifications and completed contracts; and ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which clarifies narrow aspects of ASC 606 or corrects unintended application of the guidance. ASC 606 will be effective for the Company beginning in its first quarter of 2018. The new revenue standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption. The Company plans to adopt the standard using the modified retrospective method.

The Company continues to evaluate all potential impacts of the new standard, as well as the changes that may be required to systems, processes and internal controls to meet the new standard's reporting and disclosure requirements. The Company currently believes the most significant impact relates to its accounting for arrangements that include contractual provisions providing for periodic price increases or price increases that are dependent upon external factors such as an RCFI's increase in usage. Additionally, under current GAAP, the Company deferred only direct and incremental commission costs to obtain a contract and amortized those costs over the term of the related contract. Under the new standard, the Company will likely be required to defer all incremental costs related to the customer contract and amortize those costs over the expected period of customer benefit. The Company is still evaluating the impact of the new standard on arrangements that include the mentioned contractual provisions, increases in usage, and the impact of the deferral of all incremental costs of obtaining a contract with a customer and the appropriate amortization period for such costs.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early application is permitted. The Company currently expects that most of its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and operating lease liabilities upon the adoption of ASU 2016-02, which will increase the total assets and total liabilities that it reports relative to such amounts prior to adoption.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," or ASU 2016-09, which amends ASC Topic 718, "Compensation – Stock Compensation." ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard became effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this standard as of January 1, 2017 and has elected not to use a forfeiture rate. The adoption resulted in a cumulative-effect adjustment to retained earnings of $0.2 million, which was included in the condensed consolidated financial statements for the quarter ended March 31, 2017.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," to clarify and provide specific guidance on eight cash flow classification issues that are not addressed by current GAAP and thereby reduce the current diversity in practice. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its condensed consolidated financial statements.

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which provides guidance on the classification of restricted cash in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company has early adopted this standard as of January 1, 2017, and its adoption did not have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323)" to clarify the scope of Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. This ASU amends the disclosure requirements for ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ASU No. 2016-02, "Leases (Topic 842)" and ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU states that if a registrant does not know or cannot reasonably estimate the impact that the adoption of the above ASUs is expected to have on the financial statements, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. This ASU was effective upon issuance. The Company adopted this ASU and added qualitative financial statement disclosures as necessary.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test and requires an entity to write down the carrying value of goodwill up to the amount by which the carrying amount of a reporting unit exceeds its fair value. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this standard to have a material impact on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718)" to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its condensed consolidated financial statements.

3. Business Combinations and Asset Acquisitions

In January 2017, the Company acquired the outstanding shares of a privately-owned company. In accordance with ASU 2017-01, the Company determined the set of assets acquired was not a business as substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable asset, and the transaction was accounted for as an asset purchase. The Company acquired the assets for $1.5 million in cash from existing balances which includes a hold-back of $0.2 million payable twelve months after the closing date. Consideration was allocated on a relative fair value basis and resulted in $1.5 million in intangible assets including acquired technology and assembled workforce. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three years. The acquired intangible assets are not amortizable for income tax purposes, which will result in an increase to deferred tax liabilities and a decrease of valuation allowance of $0.5 million.

During 2015, the Company acquired all of the outstanding shares of Centrix, a privately-owned company that provides financial institutions with products that detect fraud, manage risk and simplify compliance and acquired all of the outstanding ownership interests of Social Money, a privately-owned financial services software company that offers a modern, cloud-based platform that assists financial institutions in their direct digital strategies. During the first half of 2017, the Company paid out $6.0 million to the former Centrix shareholders based upon the achievement of certain milestone-based objectives and continued employment. During the first half of 2017, the Company also paid out $0.2 million in retention bonuses to certain of

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

the Social Money employees based upon their continued employment with the Company and released the entire $2.5 million hold-back to the former owners of Social Money upon the expiration of the hold-back period. The Company continues to accrue for payouts contingent upon future employment of acquired employees. The Company has recognized $0.4 million and $1.5 million under these agreements in compensation expense included in acquisition related costs in the condensed consolidated statement of comprehensive loss for the three months ended June 30, 2017 and 2016, respectively, and $0.7 million and $2.8 million for the six months ended June 30, 2017 and 2016, respectively. The unpaid amounts due to the former shareholders or continuing employees, as applicable, are recorded in accrued compensation in the consolidated balance sheets as of June 30, 2017.

4. Fair Value Measurements

The carrying values of the Company's financial instruments, principally cash equivalents, investments, accounts receivable, restricted cash and accounts payable, approximated their fair values due to the short period of time to maturity or repayment.

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than quoted prices included within Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and
- Level 3—Unobservable inputs that are supported by little or no market activity, which requires the Company to develop its own assumptions.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table details the fair value hierarchy of the Company's financial assets measured at fair value on a recurring basis as of June 30, 2017:

		Fair Value Measurements Using:		
Cash Equivalents:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$6,555	$6,555	$ —	$ —

Investments:	Fair Value	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Assets (Level 1)			
U.S. government agency bonds	$16,008	$—	$ 16,008	$	—
Corporate bonds and commercial paper	16,073	—	16,073	—	
Certificates of deposit	12,104	—	12,104	—	
	$44,185	$—	$ 44,185	$	—

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

The following table details the fair value hierarchy of the Company's financial assets measured at fair value on a recurring basis as of December 31, 2016:

		Fair Value Measurements Using:		
Cash Equivalents:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$8,306	$8,306	$ —	$ —

		Fair Value Measurements Using:		
Investments:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government agency bonds	$12,998	$—	$ 12,998	$ —
Corporate bonds and commercial paper	14,647	—	14,647	—
Certificates of deposit	14,604	—	14,604	—
	$42,249	$—	$ 42,249	$ —

The Company determines the fair value of its investment holdings based on pricing from our pricing vendors. The valuation techniques used to measure the fair value of financial instruments having Level 2 inputs were derived from non-binding consensus prices that are corroborated by observable market data or quoted market prices for similar instruments. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs).

5. Cash, Cash Equivalents and Investments

The Company's cash, cash equivalents and investments as of June 30, 2017 and December 31, 2016 consisted primarily of cash, U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and money market funds.

The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses on available-for-sale investments are included in accumulated other comprehensive loss, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. The Company considers impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely the Company will sell the investments before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net, in the condensed consolidated

statements of comprehensive loss. Interest, amortization of premiums and accretion of discount on all investments classified as available-for-sale are also included as a component of other income (expense), net, in the condensed consolidated statements of comprehensive loss.

As of June 30, 2017 and December 31, 2016, the Company's cash was $27.9 million and $46.6 million, respectively.

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

A summary of the Company's cash equivalents and investments as of June 30, 2017 is as follows:

Cash Equivalents:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 6,555	$ —	$ —	$6,555

Investments:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency bonds	$ 16,058	$ —	$ (50)	$16,008
Corporate bonds and commercial paper	16,108	—	(35)	16,073
Certificates of deposit	12,104	—	—	12,104
	$ 44,270	$ —	$ (85)	$44,185

A summary of the Company's cash equivalents and investments as of December 31, 2016 is as follows:

Cash Equivalents:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 8,306	$ —	$ —	$8,306

Investments:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency bonds	$ 13,028	$ —	$ (30)	$12,998
Corporate bonds and commercial paper	14,671	—	(24)	14,647
Certificates of deposit	14,604	—	—	14,604
	$ 42,303	$ —	$ (54)	$42,249

The Company may sell its investments at any time, without significant penalty, for use in current operations or for other purposes, even if they have not yet reached maturity. As a result, the Company classifies its investments, including investments with maturities beyond twelve months, as current assets in the accompanying condensed consolidated balance sheets.

The following table summarizes the estimated fair value of the Company's investments, designated as available-for-sale and classified by the contractual maturity date of the investments as of the dates shown:

	June 30, 2017	December 31, 2016
Due within one year or less	$24,875	$ 26,577
Due after one year through five years	19,310	15,672
	$44,185	$ 42,249

The Company has certain available-for-sale investments in a gross unrealized loss position, all of which have been in such position for less than twelve months. The Company reviews its debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other than temporary decline in fair value. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer and its intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's amortized-cost basis. If the Company determines that an other than temporary decline exists in one of these investments, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized in other income, net in the condensed consolidated statements

of comprehensive loss. Any portion not related to credit loss would be included in

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

accumulated other comprehensive loss. Because the Company does not intend to sell any investments which have an unrealized loss position at this time, and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider the investments with unrealized loss positions to be other than temporarily impaired as of June 30, 2017.

The following table shows the fair values and the gross unrealized losses of these available-for-sale investments aggregated by investment category as of June 30, 2017:

	Adjusted Cost	Gross Unrealized Loss	Fair Value
U.S. government agency bonds	$16,058	$ (50)	$16,008
Corporate bonds and commercial paper	16,108	(35)	16,073
	$32,166	$ (85)	$32,081

The following table shows the fair values and the gross unrealized losses of these available-for-sale investments aggregated by investment category as of December 31, 2016:

	Adjusted Cost	Gross Unrealized Loss	Fair Value
U.S. government agency bonds	$13,028	$ (30)	$12,998
Corporate bonds and commercial paper	13,668	(24)	13,644
	$26,696	$ (54)	$26,642

6. Goodwill and Intangible Assets

The carrying amount of goodwill was $12.9 million at June 30, 2017 and December 31, 2016. Goodwill represents the excess purchase price over the fair value of assets acquired. During 2015, the Company completed the acquisitions of Centrix and Social Money. The Company has one operating segment and one reporting unit. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach based on the market capitalization of the reporting unit. No impairment of goodwill has been recorded to date. Goodwill is deductible for tax purposes in certain jurisdictions.

Intangible assets at June 30, 2017 and December 31, 2016 were as follows:

	As of June 30, 2017			As of December 31, 2016		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$3,130	$ (1,021)	$2,109	$3,130	$ (749)	$2,381
Non-compete agreements	884	(363)	521	884	(266)	618
Trademarks	2,140	(1,367)	773	2,140	(1,010)	1,130
Acquired technology	13,293	(5,642)	7,651	11,920	(3,846)	8,074
Assembled workforce	121	(18)	103	—	—	—
Capitalized software development costs	3,766	(205)	3,561	3,005	—	3,005
	$23,334	$ (8,616)	$14,718	$21,079	$ (5,871)	$15,208

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

The Company recorded intangible assets from the business combinations in 2015 and an asset acquisition in 2017, discussed in Note 3, Business Combinations and Asset Acquisitions. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from two to six years. Amortization expense included in cost of revenues in the condensed consolidated statement of comprehensive loss was $0.9 million and $0.8 million for the three months ended June 30, 2017 and 2016, respectively, and $1.8 million and $1.6 million for the six months ended June 30, 2017 and 2016, respectively. Amortization expense included in operating expenses in the condensed consolidated statement of comprehensive loss was $0.4 million for each of the three months ended June 30, 2017 and 2016, and $0.7 million for each of the six months ended June 30, 2017 and 2016.

Software development costs capitalized as of June 30, 2017 were $3.8 million and $3.0 million as of December 31, 2016. In the first half of 2017, two of the products related to capitalized software development costs reached general release, and the Company has commenced amortization of these costs. The Company has recognized $0.1 million and $0.2 million of amortization of capitalized software development costs for the three and six months ended June 30, 2017, respectively. Capitalized software development costs are computed on an individual product basis and those products available for market are amortized to cost of revenues over the products' estimated economic lives, which are expected to be three to five years.

7. Debt

In April 2013, the Company entered into a secured credit facility agreement, or Credit Facility, with Wells Fargo Bank, National Association, or Wells Fargo, which the Company and Wells Fargo subsequently amended several times, most recently on March 31, 2016, to modify the Credit Facility to allow for the acquisition of Social Money. The Credit Facility, as amended, provided for a line of credit of up to $25.0 million, with an accordion feature, or Accordion Feature, allowing the Company to increase its maximum borrowings by up to an additional $25.0 million, subject to certain conditions and limitations, including that borrowings at any time would be limited to 75% of the Company's trailing twelve-month recurring revenues. Access to the total borrowings available under the Credit Facility was restricted based on covenants related to the Company's minimum liquidity and adjusted EBITDA. Amounts borrowed under the Credit Facility accrued interest, at the Company's election at either: (i) the per annum rate equal to the LIBOR rate plus an applicable margin; or (ii) the then current base rate plus the greater of the U.S. Federal Funds rate plus one percentage point, the one-month LIBOR plus one percentage point, or the lending financial institution's prime rate. The Company paid a monthly fee based on the total unused borrowings balance, an annual administrative fee and the initial closing fee, which was paid in three equal annual installments over the first three years of the Credit Facility. The Accordion Feature expired in October 2016, at which time maximum borrowings under the Facility were reduced to $25.0 million.

On April 11, 2017, the Credit Facility expired pursuant to its original terms. Upon the expiration of the Credit Facility, the Company paid off the outstanding balance, which was less than $0.1 million, and the secured letter of credit which had been issued against the facility for the security deposit for our corporate headquarters is now secured by a $1.6 million restricted deposit with Wells Fargo.

8. Commitments and Contingencies

Operating Lease Commitments

The Company leases office space under non-cancellable operating leases for its corporate headquarters in Austin, Texas in two adjacent buildings under separate lease agreements, pursuant to the first of which the Company leases approximately 67 square feet of office space with an initial term that expires on April 30, 2021, with the option to extend the lease for an additional five-year term, and pursuant to the second of which the Company leases approximately 129 square feet of office space with an initial term that expires on April 30, 2028, with the option to extend the lease for an additional ten-year term. The Company also leases office space in: Lincoln, Nebraska; Des Moines, Iowa; Atlanta, Georgia; Asheville, North Carolina; and south Austin, Texas. The Company believes its current facilities will be adequate for its needs for the foreseeable future. Rent expense under operating leases was $1.1 million and $1.0 million for the three months ended June 30, 2017 and 2016, respectively, and $2.2 million and

$1.9 million for the six months ended June 30, 2017 and 2016, respectively.

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

Contractual Commitments

The Company has non-cancelable contractual commitments related to third-party products, co-location fees and other product costs. The Company is party to several purchase commitments for third-party products that contain both a contractual minimum obligation and a variable obligation based upon usage or other factors which can change on a monthly basis. The estimated amounts for usage and other factors are not included within the table below. Future minimum contractual commitments that have initial or remaining non-cancelable terms in excess of one year were as follows:

	Contractual Commitments
Year Ended December 31,	
2017 (from July 1 to December 31)	$ 5,554
2018	12,135
2019	10,109
2020	6,744
2021 and thereafter	—
Total commitments	$ 34,542

Legal Proceedings

From time to time, the Company may become involved in legal proceedings arising in the ordinary course of its business. The Company is not presently a party to any legal proceedings that, if determined adversely to the Company, would have a material adverse effect on the Company.

9. Stock-Based Compensation

In March 2014, the Company's board of directors approved the 2014 Equity Incentive Plan, or 2014 Plan, under which stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards may be granted to employees, consultants and directors. Shares of common stock that are issued and available for issuance under the 2014 Plan consist of authorized, but unissued or reacquired shares of common stock or any combination thereof.

As of December 31, 2016, a total of 2,080 shares had been reserved for issuance under the 2014 Plan. The 2014 Plan contains a provision that automatically increases the shares available for issuance under the plan on January 1 of each year subsequent to the 2014 Plan's adoption through 2024, by an amount equal to the smaller of (a) 4.5% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Company's board of directors. On January 1, 2017, 1,819 shares were added to the 2014 Plan in accordance with the annual automatic increase provision of the 2014 Plan. In addition, the 2014 Plan reserve is automatically increased to include any shares issuable upon expiration or termination of options granted under the Company's 2007 Stock Plan, or 2007 Plan, for options that expire or terminate without having been exercised. For the six months ended June 30, 2017, 66 shares have been transferred to the 2014 Plan from the 2007 Plan, and as of June 30, 2017 a total of 7,297 shares were allocated for issuance under the 2014 Plan. As of June 30, 2017, options to purchase a total of 2,628 shares of common stock have been granted under the 2014 Plan, 1,979 shares have been reserved under the 2014 Plan for the vesting of restricted stock units, 297 shares have been returned to the 2014 Plan as a result of termination of options that expired or terminated without having been exercised and restricted stock awards that terminated prior to the awards vesting, and 2,987 shares of common stock remain available for future issuance under the 2014 Plan.

In July 2007, the Company adopted the 2007 Plan under which options or stock purchase rights may be granted to employees, consultants and directors. Upon the completion of the Company's initial public offering, or IPO, in March 2014, the board of directors terminated the 2007 Plan in connection with the IPO and all shares that were available for future issuance under the 2007 Plan at such time were transferred to the 2014 Plan. The 2007 Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the 2007 Plan. As of June 30, 2017, no

shares remain available for

20

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

future issuance under the 2007 Plan. Shares of common stock that are issued and were available for issuance under the 2007 Plan consist of authorized, but unissued or reacquired shares of common stock or any combination thereof.

Stock Options

Stock option activity during the six months ended June 30, 2017 was as follows:

	Number of Options	Weighted Average Exercise Price
Balance as of January 1, 2017	4,434	$ 12.91
Granted	576	35.81
Exercised	(678)	8.79
Forfeited	(113)	14.14
Balance as of June 30, 2017	4,219	$ 16.67

Restricted Stock Units

Restricted stock unit activity during the six months ended June 30, 2017 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of January 1, 2017	1,210	$ 25.87
Granted	493	37.04
Vested	(127)	21.65
Forfeited	(44)	25.49
Nonvested as of June 30, 2017	1,532	$ 29.82

10. Income Taxes

In accordance with applicable accounting guidance, the income tax provision for the three and six months ended June 30, 2017 is based on the estimated annual effective tax rate for fiscal year 2017. The estimated effective tax rate may be subject to adjustment in subsequent quarterly periods as the estimates of pretax income for the year, along with other items that may affect the rate, change.

The Company's provision for income taxes reflected an effective tax rate of approximately 2.9% and 0.0% for the three months ended June 30, 2017 and 2016, respectively, and 2.4% and 1.2% for the six months ended June 30, 2017 and 2016, respectively. For the three and six months ended June 30, 2017 and 2016, the Company's effective tax rate was lower than the U.S. federal statutory rate primarily due to changes to its valuation allowance.

The Company has significant deferred tax assets related to its net operating loss carryforwards and tax credits and has provided a valuation allowance for the full amount of its deferred tax assets, as it is not more likely than not that any future benefit from deductible temporary differences, net operating loss carryforwards, and tax credit carryforwards will be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

To date, the Company has provided a full valuation allowance against its deferred tax assets as it believes the objective and verifiable evidence of its historical pretax net losses outweighs any positive evidence of its forecasted future results. Although the Company believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business. The Company will continue to monitor the positive and negative evidence, and it will adjust the valuation allowance as sufficient objective positive evidence becomes available.

21

Table of Contents
Q2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except per share amounts and unless otherwise indicated)

The Company increased both its net operating loss deferred tax asset and its valuation allowance by $17.3 million upon adoption of ASU No. 2016-09 relating to certain tax deductions associated with stock option transactions greater than the stock-related compensation expense for financial statement purposes.

The Company had no unrecognized tax benefits as of June 30, 2017. The Company's tax years 2013 through 2016 remain open to examination by the major taxing jurisdictions to which the Company is subject. However, the Company is not currently under examination by any taxing jurisdiction.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. You can identify these statements by words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "should," "will," "strategy," "future," "likely," or "would" or the negative of these terms or similar expressions. These statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Factors that may cause such differences include, but are not limited to, the risks described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission, or the SEC.

Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and in our other SEC filings, including the audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2016, which are included in our Annual Report on Form 10-K, filed with the SEC on February 21, 2017.

Overview

We are a leading provider of secure, cloud-based digital banking solutions. We enable regional and community financial institutions, or RCFIs, to deliver a robust suite of integrated digital banking services to more effectively engage with their consumer and commercial account holders who expect to bank anytime, anywhere and on any device. Our solutions are often the most frequent point of interaction between our RCFI customers and their account holders. As such, we purpose build our solutions to deliver a compelling, consistent user experience across digital channels and drive the success of our customers by extending their local brands, enabling improved account holder retention and creating incremental sales opportunities.

The effective delivery and management of secure and advanced digital banking solutions in the complex and heavily-regulated financial services industry requires significant resources, personnel and expertise. We provide digital banking solutions that are designed to be highly configurable, scalable and adaptable to the specific needs of our RCFI customers. Our solutions deliver to account holders a unified digital banking experience across online, mobile and voice channels by leveraging a common platform that integrates our solutions with each other and with our customers' other internal and third-party systems. In addition, we design our solutions and our data center infrastructure to comply with stringent security and technical regulations applicable to financial institutions and to safeguard our customers and their account holders through features such as real-time risk and fraud analytics.

We deliver our solutions to the substantial majority of our customers using a software-as-a-service, or SaaS, model under which our customers pay subscription fees for the use of our solutions. A small portion of our customers host our solutions in their own data centers under term license and maintenance agreements. Our customers have numerous account holders, and those account holders can represent one or more registered users on our solutions. We generally price our solutions based on the number of solutions purchased by our customers and the number of registered users

utilizing our solutions. We earn additional revenues based on the number of bill-pay and certain other transactions that registered users perform on our digital banking solutions in excess of the levels included in our standard subscription fee. As a result, our revenues grow as our customers buy more solutions from us and increase the number of registered users utilizing our solutions and as those users increase their number of transactions on our solutions.

Table of Contents

We have achieved significant growth since our inception. During each of the past six years, our average number of registered users per installed customer has grown, and we have been able to sell additional solutions to existing customers. Our revenues per installed customer and per registered user vary period-to-period based on the length and timing of customer implementations, changes in the average number of registered users per customer, sales of additional solutions to existing customers, changes in the number of transactions on our solutions by registered users and variations among existing customers and new customers with respect to the mix of purchased solutions and related pricing.

We believe we have a significant opportunity to continue to grow our business, and we intend to invest across our organization to increase our revenues and improve our operating efficiencies. These investments will increase our costs on an absolute dollar basis, but the timing and amount of these investments will vary based on the rate at which we expect to add new customers, the implementation and support needs of our customers, our software development plans, our technology infrastructure requirements and the internal needs of our organization. Many of these investments will occur in advance of our realizing any resultant benefit which may make it difficult to determine if we are effectively allocating our resources.

If we are successful in growing our revenues by increasing the number and scope of our customer relationships, we anticipate that greater economies of scale and increased operating leverage will improve our margins over the long term. We also anticipate that increases in the number of registered users for existing customers will improve our margins. However, we do not have any control or influence over whether account holders elect to become registered users of our customers' digital banking services.

We sell our solutions primarily through our professional sales organization. Our target market of RCFIs is well-defined as a result of applicable governmental regulations. As a result, we are able to effectively concentrate our sales and marketing efforts on these readily-identifiable financial institutions. We intend to add sales representatives for both banks and credit unions across the U.S. We also expect to increase our number of sales support and marketing personnel, as well as our investment in marketing initiatives designed to increase awareness of our solutions and generate new customer opportunities.

We seek to help our RCFI customers succeed by providing advanced digital banking solutions that allow our customers to distinguish themselves from competing financial institutions and better engage with their account holders. We believe that we successfully compete in our market due to our deep domain expertise, reputation for innovation and the quality, breadth and integration of our solutions and common platform. We have made significant investments, and intend to increase investments in technology innovation and software development as we enhance our solutions and platform and increase or expand the number of solutions that we offer to RCFIs and their account holders.

We believe that delivery of consistent, high-quality customer support is a significant driver of RCFI purchasing and renewal decisions. To develop and maintain a reputation for high-quality service, we seek to build deep relationships with our customers through our customer service organization, which we staff with personnel who are motivated by our common mission of using technology to help RCFIs succeed and who are knowledgeable with respect to the regulated and complex nature of the financial services industry. As we grow our business, we must continue to invest in and grow our services organization to support our customers' needs and maintain our reputation.

Key Operating Measures

In addition to the United States generally accepted accounting principles, or GAAP, measures described below in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Operating Results," we monitor the following operating measures to evaluate growth trends, plan investments and measure the effectiveness of our sales and marketing efforts:

Installed Customers

We define installed customers as the number of customers on the Q2 platform from which we are currently recognizing revenues. The average size of our installed customers, measured in both registered users per installed customer and revenues per installed customer, has increased over time as our existing installed customers continue to add registered users and buy more solutions from us, and as we add larger RCFIs to our installed customer base. The rate at which we add installed customers varies based on our implementation capacity, the size and unique needs of

our customers and the readiness of our customers to implement our solutions. We had 385, 369 and 361 installed customers on the Q2 platform as of December 31, 2016, 2015 and 2014, respectively.

Registered Users

We define a registered user as an individual related to an account holder of an installed customer on the Q2 platform who has registered to use one or more of our solutions and has current access to use those solutions as of the last day of the reporting period presented. We price our solutions based on the number of registered users, so as the number of registered users of our

Table of Contents

solutions increases, our revenues grow. Our average number of registered users per installed customer grows as our existing customers add more registered users and as we add larger RCFIs to our installed customer base. We anticipate that the number of registered users will grow at a faster rate than our number of installed customers. The rate at which our customers add registered users and the incremental revenues we recognize from new registered users vary significantly period-to-period based on the timing of our implementations of new customers and the timing of registration of new users. Our installed customers had approximately 8.6 million, 6.3 million and 4.3 million registered users on the Q2 platform as of December 31, 2016, 2015 and 2014, respectively. Registered users on the Q2 platform at June 30, 2017 were 9.6 million compared to 7.6 million at June 30, 2016.

Revenue Retention Rate

We believe that our ability to retain our installed customers and expand their use of our products and services over time is an indicator of the stability of our revenue base and the long-term value of our customer relationships. We assess our performance in this area using a metric we refer to as our revenue retention rate. We calculate our revenue retention rate as the total revenues in a calendar year from customers who were installed customers as of December 31 of the prior year, expressed as a percentage of the total revenues during the prior year from those installed customers. Our revenue retention rate provides insight into the impact on current year revenues of the number of new customers implemented on the Q2 platform during the prior year, the timing of our implementation of those new customers in the prior year, growth in the number of registered users and changes in their usage of our solutions, sales of new products and services to our existing installed customers during the current year and installed customer attrition. The most significant drivers of changes in our revenue retention rate each year have historically been the number of new customers in the prior year and the timing of our implementation of those new customers. The timing of our implementation of new customers in the prior year is significant because we do not start recognizing revenues from new customers until they become installed customers. If implementations are weighted more heavily in the first or second half of the prior year, our revenue retention rate will be lower or higher, respectively. Our use of revenue retention rate has limitations as an analytical tool, and investors should not consider it in isolation. Other companies in our industry may calculate revenue retention rate differently, which reduces its usefulness as a comparative measure. Our revenue retention rate was 122% for each of the years ended December 31, 2016, 2015 and 2014.

Churn

We utilize churn to monitor the satisfaction of our customers and evaluate the effectiveness of our business strategies. We define churn as the amount of any monthly recurring revenue losses due to installed customer cancellations and downgrades, net of upgrades and additions of new solutions, during a year, divided by our monthly recurring revenue at the beginning of the year. Cancellations refer to installed customers that have either stopped using our services completely or remained a customer but terminated a particular service. Downgrades are a result of customers taking less of a particular service or renewing their contract for identical services at a lower price. Our annual churn has ranged from 5.1% to 3.5% over the last five years, and we had annual churn of 5.1%, 3.5% and 4.8% for the years ended December 31, 2016, 2015 and 2014, respectively. Our use of churn has limitations as an analytical tool, and investors should not consider it in isolation. Other companies in our industry may calculate churn differently, which reduces its usefulness as a comparative measure.

Adjusted EBITDA

We define adjusted EBITDA as net loss before depreciation, amortization, stock-based compensation, certain costs related to our recent acquisitions, provision for income taxes, total other expense, net, and unoccupied lease charges. We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results for the following reasons:

- adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;
- our management uses adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, in the preparation of our annual operating budget, as a measure of our operating performance, to assess the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance;

- adjusted EBITDA provides more consistency and comparability with our past financial performance, facilitates period-to-period comparisons of our operations and also facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and

Table of Contents

- our investor and analyst presentations include adjusted EBITDA as a supplemental measure of our overall operating performance.

Adjusted EBITDA should not be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP. The use of adjusted EBITDA as an analytical tool has limitations such as:

- depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future and adjusted EBITDA does not reflect cash requirements for such replacements;
- adjusted EBITDA may not reflect changes in, or cash requirements for, our working capital needs or contractual commitments;
- adjusted EBITDA does not reflect the potentially dilutive impact of stock-based compensation;
- adjusted EBITDA does not reflect interest or tax payments that could reduce cash available for use; and
- other companies, including companies in our industry, might calculate adjusted EBITDA or similarly titled measures differently, which reduces their usefulness as comparative measures.

Because of these and other limitations, you should consider adjusted EBITDA together with our GAAP financial measures including cash flow from operations and net loss. The following table presents a reconciliation of net loss to adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reconciliation of net loss to adjusted EBITDA:				
Net loss	$(7,821)	$(9,708)	$(14,861)	$(19,360)
Depreciation and amortization	3,702	2,944	7,227	5,871
Stock-based compensation expense	5,022	2,857	9,219	5,462
Provision for income taxes	217	3	353	233
Interest and other (income) expense, net	(109)	85	(143)	71
Acquisition related costs	351	1,476	699	2,958
Unoccupied lease charges	—	33	—	33
Adjusted EBITDA	$1,362	$(2,310)	$2,494	$(4,732)

Components of Operating Results

Revenues

All of our revenue-generating activities directly relate to the sale, implementation and support of our solutions within a single operating segment. We derive the substantial majority of our revenues from subscription fees for the use of our solutions hosted in our data centers as well as revenues for implementation and customer support services related to our solutions. A small portion of our customers host our solutions in their own data centers under term license and maintenance agreements, and we recognize the corresponding revenues over the term of those customer agreements. Subscription fees are based on the number of solutions purchased by our customers, the number of registered users and the number of bill-pay and certain other transactions those users conduct using our solutions in excess of the levels included in our standard subscription fee. Subscription fees are billed monthly, quarterly, or annually and are recognized monthly over the term of our customer agreements. The initial term of our customer agreements averages over five years, although it varies by customer. We begin recognizing subscription fees on the date a solution is implemented and made available to the customer. The timing of our implementations varies period-to-period based on our implementation capacity, the number of solutions purchased by our customers, the size and unique needs of our customers and the readiness of our customers to implement our solutions. We recognize any related implementation services revenues ratably over the initial agreement term beginning on the date we commence recognizing subscription fees. Amounts that have been invoiced but not paid are recorded in accounts receivable and in revenues or deferred revenues, depending on whether our revenue recognition criteria have been met.

Table of Contents

We consider subscription fees to be fixed or determinable unless the fees are subject to refund or adjustment or are not payable within our standard payment terms. In determining whether collection of subscription fees is reasonably assured, we consider financial and other information about customers, such as a customer's current credit-worthiness and payment history over time. Historically, our bad debt expenses have not been significant.

Cost of Revenues

Cost of revenues is comprised primarily of salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, for employees providing services to our customers. This includes the costs of our implementation, customer support, data center and customer training personnel, as well as a reclassification of costs related to research and development personnel who perform implementation and customer support services. Cost of revenues also includes the direct costs of bill-pay and other third-party intellectual property included in our solutions, the amortization of deferred solution and services costs, co-location facility costs and depreciation of our data center assets, an allocation of general overhead costs, the amortization of acquired technology, and referral fees. We allocate general overhead expenses to all departments based on the number of employees in each department, which we consider to be a fair and representative means of allocation.

We capitalize certain personnel costs directly related to the implementation of our solution to the extent those costs are considered to be recoverable from future revenues. We amortize the costs for a particular implementation once revenue recognition commences, and we amortize those implementation costs over the remaining term of the customer agreement. Other costs not directly recoverable from future revenues are expensed in the period incurred.

We capitalize certain software development costs related to programmers, software engineers and quality control teams working on our software solutions. The costs related to software development that are incurred between reaching technological feasibility of a solution and the point at which the solution is ready for general release are capitalized and are included in intangible assets, net on the condensed consolidated balance sheet. In the first half of 2017, two of the products related to capitalized software development costs reached general release, and we have commenced amortization of these costs. Capitalized software development costs are computed on an individual product basis and products available for market are amortized to cost of revenues over the products' estimated economic lives.

We intend to continue to increase our investments in our implementation and customer support teams and technology infrastructure to serve our customers and support our growth. We expect cost of revenues to continue to grow in absolute dollars as we grow our business but to fluctuate as a percentage of revenues based principally on the level and timing of implementation and support activities and other related costs.

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. They also include costs related to our acquisitions and the resulting amortization of acquired intangible assets from those acquisitions. We intend to continue to hire new employees and make other investments to support our anticipated growth. As a result, we expect our operating expenses to increase in absolute dollars but to decrease as a percentage of revenues over the long term as we grow our business.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and other personnel-related costs, including commissions, benefits, bonuses and stock-based compensation. Sales and marketing expenses also include expenses related to advertising, lead generation, promotional event programs, corporate communications, travel and allocated overhead. Sales and marketing expenses as a percentage of total revenues will change in any given period based on several factors including the addition of newly-hired sales professionals, the number and timing of newly-installed customers and the amount of sales commissions expense amortized related to those customers. Commissions are generally capitalized and then amortized over the life of the customer agreement.

Sales and marketing expenses are also impacted by the timing of significant marketing programs such as our annual user conference which we typically hold during the second quarter. We plan to continue investing in sales and marketing by increasing our number of sales and marketing personnel and expanding our sales and marketing activities. We believe these investments will help us build brand awareness, add new customers and expand sales to our existing customers as they continue to buy more solutions from us, the number of registered users utilizing our

solutions grows and those users increase the number of transactions on our solutions.

Table of Contents

Research and Development

We believe that continuing to improve and enhance our solutions is essential to maintaining our reputation for innovation and growing our customer base and revenues. Research and development expenses include salaries and personnel-related costs, including benefits, bonuses and stock-based compensation, third-party contractor expenses, software development costs, allocated overhead and other related expenses incurred in developing new solutions and enhancing existing solutions. Research and development expenses are expensed as incurred.

Certain research and development costs that are related to our software development, which includes salaries and other personnel-related costs, including employee benefits and bonuses attributed to programmers, software engineers and quality control teams working on our software solutions, are capitalized and are included in intangible assets, net on the condensed consolidated balance sheet.

General and Administrative

General and administrative expenses consist primarily of salaries and other personnel-related costs, including benefits, bonuses and stock-based compensation, of our administrative, finance and accounting, information systems, legal and human resources employees. General and administrative expenses also include consulting and professional fees, insurance and travel. We expect to continue to incur incremental expenses associated with the growth of our business and to meet increased compliance requirements associated with operating as a public company. These expenses include costs to comply with Section 404 of the Sarbanes-Oxley Act and other regulations governing public companies, increased costs of directors' and officers' liability insurance and investor relations activities.

Acquisition Related Costs

Acquisition related costs include compensation expenses related to milestone provisions and retention agreements with certain former shareholders and employees of Centrix and Social Money which are recognized as earned, and various legal and professional service expenses incurred in connection with the acquisitions, which were recognized when incurred.

Amortization of Acquired Intangibles

Amortization of acquired intangibles represent the amortization of intangibles recorded in connection with our business acquisitions which are amortized on a straight-line basis over the estimated useful lives of the related assets.

Total Other Income (Expense), Net

Total other income (expense), net, consists primarily of interest income and expense and loss on disposal of long-lived assets. We earn interest income on our cash, cash equivalents and investments. Interest expense consists primarily of the interest incurred on our Credit Facility which expired in April 2017, and fees and interest associated with the letter of credit issued to our landlord for the security deposit for our corporate headquarters.

Provision for Income Taxes

As a result of our current net operating loss position, current income tax expenses consist primarily of state income taxes, and deferred income tax expenses relate to the tax amortization of acquired goodwill, resulting in the recognition of a net deferred tax liability.

Table of Contents

Results of Operations

Condensed Consolidated Statements of Operations Data

The following table sets forth our condensed consolidated statements of operations data for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$47,625	$36,005	$92,159	$69,764
Cost of revenues[1][2]	24,328	18,870	47,100	36,684
Gross profit	23,297	17,135	45,059	33,080
Operating expenses:				
Sales and marketing[2]	11,096	9,611	20,974	17,818
Research and development[2]	9,922	7,830	19,573	15,733
General and administrative[2]	9,268	7,437	17,720	14,858
Acquisition related costs	351	1,476	699	2,958
Amortization of acquired intangibles	373	368	744	736
Unoccupied lease charges	—	33	—	33
Total operating expenses	31,010	26,755	59,710	52,136
Loss from operations	(7,713)	(9,620)	(14,651)	(19,056)
Total other income (expense), net	109	(85)	143	(71)
Loss before income taxes	(7,604)	(9,705)	(14,508)	(19,127)
Provision for income taxes	(217)	(3)	(353)	(233)
Net loss	$(7,821)	$(9,708)	$(14,861)	$(19,360)

(1) Includes amortization of acquired technology of $0.9 million and $0.8 million for the three months ended June 30, 2017 and 2016, respectively, and $1.8 million and $1.6 million for the six months ended June 30, 2017 and 2016, respectively.

(2) Includes stock-based compensation expenses as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenues	$819	$455	$1,543	$861
Sales and marketing	812	492	1,443	927
Research and development	1,033	652	1,978	1,284
General and administrative	2,358	1,258	4,255	2,390
Total stock-based compensation expenses	$5,022	$2,857	$9,219	$5,462

Table of Contents

The following table sets forth our condensed consolidated statements of operations data as a percentage of revenues for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues[1][2]	51.1	52.4	51.1	52.6
Gross profit	48.9	47.6	48.9	47.4
Operating expenses:				
Sales and marketing[2]	23.3	26.7	22.8	25.5
Research and development[2]	20.8	21.7	21.2	22.6
General and administrative[2]	19.5	20.7	19.2	21.3
Acquisition related costs	0.7	4.1	0.8	4.2
Amortization of acquired intangibles	0.8	1.0	0.8	1.1
Unoccupied lease charges	—	0.1	—	0.1
Total operating expenses	65.1	74.3	64.8	74.8
Loss from operations	(16.2)	(26.7)	(15.9)	(27.4)
Total other income (expense), net	0.2	(0.2)	0.2	(0.1)
Loss before income taxes	(16.0)	(26.9)	(15.7)	(27.5)
Provision for income taxes	(0.5)	—	(0.4)	(0.3)
Net loss	(16.4)%	(26.9)%	(16.1)%	(27.8)%

(1) Includes amortization of acquired technology of 1.9% and 2.2% for the three months ended June 30, 2017 and 2016, respectively, and 1.9% and 2.3% for the six months ended June 30, 2017 and 2016, respectively.

(2) Includes stock-based compensation expenses as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenues	1.7 %	1.3%	1.7 %	1.2%
Sales and marketing	1.7	1.4	1.6	1.3
Research and development	2.2	1.8	2.1	1.8
General and administrative	5.0	3.5	4.6	3.4
Total stock-based compensation expenses	10.5%	8.0%	10.0%	7.7%

Due to rounding, totals may not equal the sum of the line items in the tables above.

Table of Contents

Comparison of Three and Six Months Ended June 30, 2017 and 2016

Revenues

The following table presents our revenues for each of the periods indicated (dollars in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
Revenues	$47,625	$36,005	$11,620	32.3%	$92,159	$69,764	$22,395	32.1%

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Revenues increased by $11.6 million, or 32.3%, from $36.0 million for the three months ended June 30, 2016 to $47.6 million for the three months ended June 30, 2017. This increase in revenue was primarily attributable to a $10.3 million increase from growth in new registered users from existing customers and the addition of registered users from newly installed customers. The remaining $1.3 million of revenue growth was generated primarily from an increase in the number of transactions processed using our solutions.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Revenues increased by $22.4 million, or 32.1%, from $69.8 million for the six months ended June 30, 2016 to $92.2 million for the six months ended June 30, 2017. This increase in revenue was primarily attributable to a $20.1 million increase from growth in new registered users from existing customers and the addition of registered users from newly installed customers. The remaining $2.3 million of revenue growth was generated primarily from an increase in the number of transactions processed using our solutions.

Cost of Revenues

The following table presents our cost of revenues for each of the periods indicated (dollars in thousands):

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
Cost of revenues	$24,328	$18,870	$5,458	28.9%	$47,100	$36,684	$10,416	28.4%
Percentage of revenues	51.1 %	52.4 %			51.1 %	52.6 %		

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Cost of revenues increased by $5.5 million, or 28.9%, from $18.9 million for the three months ended June 30, 2016 to $24.3 million for the three months ended June 30, 2017. This increase was attributable to a $2.6 million increase in personnel costs due to an increase in the number of personnel who provide implementation and customer support and maintain our data centers and other technical infrastructure, which included a $0.4 million increase in stock-based compensation expense allocated to cost of revenues for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $1.1 million increase in co-location facility costs and depreciation for our data center assets resulting from the increased infrastructure necessary to support our growing customer base, a $1.0 million increase in third-party costs related to intellectual property included in our solutions and transaction processing costs incurred as a result of the increase in registered users from existing and new customers, as well as implementation and support personnel expenses that are reimbursable from our customers, a $0.5 million increase in facilities and other overhead costs which were allocated to our implementation and support departments, and a $0.3 million increase from capitalized services amortization.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Cost of revenues increased by $10.4 million, or 28.4%, from $36.7 million for the six months ended June 30, 2016 to $47.1 million for the six months ended June 30, 2017. This increase was attributable to a $4.6 million increase in personnel costs due to an increase in the number of personnel who provide implementation and customer support and maintain our data centers and other technical infrastructure, which included a $0.7 million increase in stock-based compensation expense allocated to cost of revenues for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $2.3 million increase in third-party costs related to intellectual property included in our solutions and transaction processing costs incurred as a result of the increase in registered users from existing and new customers, as well as implementation and support personnel expenses that are reimbursable from our customers, a $1.9 million increase in co-location facility costs and

depreciation for our data center assets resulting from the increased infrastructure necessary to support our growing customer base, a $1.0 million increase in facilities and other overhead costs

Table of Contents

which were allocated to our implementation and support departments, and a $0.5 million increase from capitalized services amortization.

We defer certain payroll costs directly related to the implementation of our solutions to the extent those costs are considered to be recoverable from future revenues. However, a substantial portion of our implementation costs are not eligible for deferral and, as a result, are expensed in the period incurred. Costs related to implementations that have been deferred are amortized over the same period in which the related revenue is recognized. Additionally, we invest in personnel, business processes and systems infrastructure to standardize our business processes and drive future efficiency in our implementations, customer support and data center operations. We expect these investments will increase cost of revenues in absolute dollars as we continue to make investments in capacity and process improvement, and we expect future expansion of gross margin as we begin to achieve economies of scale from these investments.

Operating Expenses

The following tables present our operating expenses for each of the periods indicated (dollars in thousands):

Sales and Marketing

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
Sales and marketing	$11,096	$9,611	$1,485	15.5%	$20,974	$17,818	$3,156	17.7%
Percentage of revenues	23.3 %	26.7 %			22.8 %	25.5 %		

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Sales and marketing expenses increased by $1.5 million, or 15.5%, from $9.6 million for the three months ended June 30, 2016 to $11.1 million for the three months ended June 30, 2017. This increase was primarily attributable to a $0.9 million increase in personnel costs due to the growth of our sales and marketing organizations, which included a $0.3 million increase in stock-based compensation expense allocated to sales and marketing expenses for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $0.3 million increase in recruiting and travel related expenses, a $0.2 million increase from the growth in our annual client conference, and a $0.1 million increase in facilities and other overhead costs which were allocated to our sales and marketing departments.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Sales and marketing expenses increased by $3.2 million, or 17.7%, from $17.8 million for the six months ended June 30, 2016 to $21.0 million for the six months ended June 30, 2017. This increase was primarily attributable to a $2.2 million increase in personnel costs due to the growth of our sales and marketing organizations, which included a $0.5 million increase in stock-based compensation expense allocated to sales and marketing expenses for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $0.4 million increase in facilities and other overhead costs which were allocated to our sales and marketing departments, a $0.3 million increase in discretionary marketing spend driven primarily by the growth in our annual client conference, and a $0.3 million increase in recruiting and travel related expenses.

We anticipate that sales and marketing expenses will continue to increase in absolute dollars in the future as we add personnel to support our revenue growth and as we increase discretionary marketing spend to attract new customers, retain and grow existing customers and drive brand awareness. We expect such expenses to decline as a percentage of our revenues over time as our revenues grow.

Table of Contents

Research and Development

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
Research and development	$9,922	$7,830	$2,092	26.7%	$19,573	$15,733	$3,840	24.4%
Percentage of revenues	20.8 %	21.7 %			21.2 %	22.6 %		

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Research and development expenses increased by $2.1 million, or 26.7%, from $7.8 million for the three months ended June 30, 2016 to $9.9 million for the three months ended June 30, 2017. This increase was primarily attributable to a $1.5 million increase in personnel costs as a result of the growth in our research and development organization to support continued enhancements to our solutions, which included a $0.4 million increase in stock-based compensation expense allocated to research and development expenses for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. An additional $0.4 million of the increase resulted from reduced capitalization of research and development salaries as software development costs as two products reached general release during the first half of 2017, and $0.2 million of the increase was related to facilities and other overhead costs which were allocated to our research and development departments.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Research and development expenses increased by $3.8 million, or 24.4%, from $15.7 million for the six months ended June 30, 2016 to $19.6 million for the six months ended June 30, 2017. This increase was primarily attributable to a $2.8 million increase in personnel costs as a result of the growth in our research and development organization to support continued enhancements to our solutions, which included a $0.7 million increase in stock-based compensation expense allocated to research and development expenses for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $0.7 million increase in facilities and other overhead costs which were allocated to our research and development departments. An additional $0.4 million of the increase resulted from reduced capitalization of research and development salaries as software development costs as two products reached general release during the first half of 2017. This increase was partially offset by a $0.1 million decrease in professional services.

We anticipate that research and development expenses will increase in absolute dollars in the future as we continue to support and expand our platform and enhance our existing solutions.

General and Administrative

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
General and administrative	$9,268	$7,437	$1,831	24.6%	$17,720	$14,858	$2,862	19.3%
Percentage of revenues	19.5 %	20.7 %			19.2 %	21.3 %		

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. General and administrative expenses increased by $1.8 million, or 24.6%, from $7.4 million for the three months ended June 30, 2016 to $9.3 million for the three months ended June 30, 2017. The increase in general and administrative expenses was primarily attributable to a $1.8 million increase in personnel costs to support the growth of our business, which included a $1.1 million increase in stock-based compensation expense allocated to general and administrative expenses for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $0.1 million increase in facilities and other overhead costs which were allocated to our general and administrative departments. This increase was partially offset by a $0.1 million decrease in professional services for legal and consulting fees.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. General and administrative expenses increased by $2.9 million, or 19.3%, from $14.9 million for the six months ended June 30, 2016 to $17.7 million for the six months ended June 30, 2017. The increase in general and administrative expenses was primarily attributable to a $3.3 million increase in personnel costs to support the growth of our business, which included a $1.9 million increase in stock-based compensation expense allocated to general and administrative expenses for the increase in the

number of stock-based awards

33

Table of Contents

vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a $0.2 million increase in facilities and other overhead costs which were allocated to our general and administrative departments. This increase was partially offset by a $0.6 million decrease in professional services for legal and consulting fees.

General and administrative expenses include costs to comply with Section 404 of the Sarbanes-Oxley Act, or SOX, and other regulations governing public companies, costs of directors' and officers' liability insurance and investor relations activities. As of June 30, 2016, the market value of our common stock held by non-affiliates exceeded $700 million. Effective January 1, 2017, we became a "large accelerated filer" and, accordingly, can no longer qualify as an emerging growth company and are no longer able to rely on certain exemptions that were previously available to us as an emerging growth company. We anticipate that general and administrative expenses will continue to increase in absolute dollars in the future as we continue to incur both increased external audit fees as well as additional spending to ensure continued SOX and other regulatory compliance. We expect such expenses to decline as a percentage of our revenues over time as our revenues grow.

Acquisition Related Costs

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
Acquisition related costs	$351	$1,476	$(1,125)	(76.2)%	$699	$2,958	$(2,259)	(76.4)%
Percentage of revenues	0.7 %	4.1 %			0.8 %	4.2 %		

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Acquisition related costs decreased by $1.1 million, or 76.2%, from $1.5 million for the three months ended June 30, 2016 to $0.4 million for the three months ended June 30, 2017. The expense for the three months ended June 30, 2017 is comprised of the compensation expense related to the remaining retention bonuses for employees of the companies acquired in 2015, while the expense for the three months ended June 30, 2016 is comprised of compensation expense related to milestone provisions and retention bonuses for employees of Centrix and Social Money and certain former Centrix shareholders. During the second quarter of 2017, we paid out $0.2 million in retention bonuses based upon continued employment.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Acquisition related costs decreased by $2.3 million, or 76.4%, from $3.0 million for the six months ended June 30, 2016 to $0.7 million for the six months ended June 30, 2017. The expense for the six months ended June 30, 2017 is comprised of compensation expense related to the remaining retention bonuses for employees of the companies acquired in 2015. The expense for the six months ended June 30, 2016 included $2.8 million of compensation expense related to milestone provisions and retention bonuses for employees of Centrix and Social Money and certain former Centrix shareholders and $0.2 million of legal and other expenses incurred related to the acquisitions. During the first half of 2017, we paid out $6.0 million to former Centrix shareholders, based upon the achievement of certain milestone-based objectives and $0.2 million in retention bonuses based upon continued employment. The final retention bonus payments, to the extent earned based on continued employment of applicable employees, will be made in 2018.

Amortization of Acquired Intangibles

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	(%)	2017	2016	$	(%)
Amortization of acquired intangibles	$373	$368	$5	1.4%	$744	$736	$8	1.1%
Percentage of revenues	0.8 %	1.0 %			0.8 %	1.1 %		

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016. Amortization of acquired intangibles was relatively flat for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The acquired intangible assets are related to our business combinations in 2015 and asset purchase in 2017, and these amounts are amortized on a straight-line basis over the estimated useful lives of the related assets.

Table of Contents

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016. Amortization of acquired intangibles was relatively flat for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The acquired intangible assets are related to our business combinations in 2015 and asset purchase in 2017, and these amounts are amortized on a straight-line basis over the estimated useful lives of the related assets.

Seasonality and Quarterly Results

Our overall operating results fluctuate from quarter to quarter as a result of a variety of factors, including the timing of investments in growing our business. The timing of our implementation activities and corresponding revenues from new customers are subject to fluctuation based on the timing of our sales. Sales may tend to be lower in the first quarter of each year than in subsequent quarters but any resulting impact on our results of operation has been difficult to measure due to the timing of our implementations and overall growth in our business. The timing of our implementations also varies period-to-period based on our implementation capacity, the number of solutions purchased by our customers, the size and unique needs of our customers and the readiness of our customers to implement our solutions. Our solutions are often the most frequent point of interaction between our customers and their account holders. As a result, we and our customers are very deliberate and careful in our implementation activities to help ensure a successful roll-out of the solutions to account holders and increase the registration of new users. Unusually long or short implementations, for even a small number of customers, may result in short-term quarterly variability in our results of operations.

Our quarterly results of operations may vary significantly in the future, and period-to-period comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future results.

Liquidity and Capital Resources

Sources of Liquidity

We have financed our operations primarily through the proceeds from the issuance of common stock in our initial public offering, or IPO, and follow-on offerings and cash flows from operations. At June 30, 2017, our principal sources of liquidity were cash, cash equivalents and investments of $78.7 million.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Six Months Ended June 30,	
	2017	2016
Net cash provided by (used in):		
Operating activities	$(10,260)	$(2,389)
Investing activities	(15,922)	(9,827)
Financing activities	5,780	(2,307)
Net decrease in cash and cash equivalents	$(20,402)	$(14,523)

Cash Flows from Operating Activities

Cash provided by (used in) operating activities is primarily influenced by the amount and timing of customer receipts and vendor payments and by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business and increase in the number of installed customers.

For the six months ended June 30, 2017, our net cash and cash equivalents used in operating activities were $10.3 million, which consisted of a net loss of $14.9 million and cash outflows from changes in operating assets and liabilities of $15.8 million, partially offset by non-cash adjustments of $20.4 million. Cash inflows were the result of a $1.2 million increase in accounts payable due to timing of payments in support of our expanding customer base and related growth in our technical infrastructure and expanded facilities and a $0.7 million increase in deferred revenues due to increased payments and deposits received from customers prior to the recognition of revenue from those related payments. Cash outflows were the result of a $7.8 million decrease in accrued liabilities mainly from the payment of $6.2 million in milestone and retention bonuses, a $5.6 million increase in deferred solution and implementation costs due to our increased customer growth and new and existing customers undergoing implementations during the period, a $2.8 million increase in accounts receivable due to the timing of billings and customer payments, a $0.9 million increase in prepaid and other current assets related to various prepaid expenses,

35

Table of Contents

and a $0.6 million decrease in deferred rent and other long-term liabilities. Non-cash items consisted primarily of $9.2 million of stock-based compensation expense, $7.2 million of depreciation and amortization expense due to growth in our fixed assets and acquired intangible assets, $3.5 million of amortization of deferred implementation, deferred solution and other costs, and $0.5 million of other non-cash items.

For the six months ended June 30, 2016, our net cash and cash equivalents used in operating activities were $2.4 million, which consisted of a net loss of $19.4 million, partially offset by cash inflows from changes in operating assets and liabilities of $1.9 million and non-cash adjustments of $15.1 million. Cash inflows were the result of a $6.0 million increase in accounts payable and accrued liabilities due to the timing of payments in support of our expanding customer base and related growth in our technical infrastructure and expanded facilities, a $4.5 million increase in deferred revenues due to increased payments and deposits received from customers prior to the recognition of revenue from those related payments and a $3.2 million increase in deferred rent and other long-term liabilities as a result of the tenant improvement allowances for our new office space expansion. Cash outflows were the result of a $6.3 million increase in deferred solution and implementation costs due to our increased customer growth and new and existing customers undergoing implementations during the period, a $3.9 million increase in prepaid and other current assets related to various prepaid expenses, and a $1.6 million decrease in accounts receivable due to the timing of billings and customer payments. Non-cash items consisted primarily of $5.9 million of depreciation and amortization expense due to growth in our fixed assets and acquired intangible assets, $5.5 million of stock-based compensation expense, $3.2 million of amortization of deferred implementation and deferred solution and other costs, and $0.5 million of other non-cash items.

Cash Flows from Investing Activities

Our investing activities have consisted primarily of purchases and maturities of investments, our recent acquisitions, purchases of property and equipment to support our growth, and costs incurred for the development of capitalized software. Purchases of property and equipment may vary period-to-period due to the timing of the expansion of our operations, data center and other technical infrastructure.

For the six months ended June 30, 2017, net cash used in investing activities was $15.9 million, consisting primarily of $15.8 million for the purchase of investments, $7.6 million for the purchase of property and equipment, $3.8 million for an asset purchase and release of the hold back from the Social Money acquisition, a $1.6 million increase in restricted cash for the security deposit for our corporate headquarters, and $0.8 million from the capitalization of software development costs, partially offset by $13.7 million from maturities of investments.

For the six months ended June 30, 2016, net cash used in investing activities was $9.8 million, consisting primarily of $20.6 million for the purchase of investments, $8.7 million for the purchase of property and equipment, and $1.2 million from the capitalization of software development costs, partially offset by $21.0 million from maturities of investments.

Cash Flows from Financing Activities

Our financing activities have consisted primarily of net proceeds from exercises of options to purchase common stock offset by payments on financing obligations.

For the six months ended June 30, 2017, net cash provided by financing activities was $5.8 million, consisting primarily of cash received from the exercise of stock options.

For the six months ended June 30, 2016, net cash used in financing activities was $2.3 million, consisting of $4.9 million of payments on financing obligations and $0.2 million of payments on capital lease obligations, partially offset by $2.7 million received from the exercise of stock options.

Contractual Obligations and Commitments

During the six months ended June 30, 2017, and subsequent to June 30, 2017, except as noted below, there were no material changes to our contractual obligations and commitments disclosures as set forth under the caption, "Contractual Obligations and Commitments" in the Management's Discussion and Analysis of Financial Condition and Results of Operations, as reported in our Annual Report on Form 10-K, filed with the SEC on February 21, 2017.

Table of Contents

The following table summarizes our contractual obligations and commitments at June 30, 2017 (in thousands):

	Payment due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Operating lease obligations	$5,558	$11,067	$9,612	$22,604	$48,841
Purchase commitments	12,713	18,457	3,372	—	34,542
Acquisition hold back	150	—	—	—	150
	$18,421	$29,524	$12,984	$22,604	$83,533

Off-Balance Sheet Arrangements

As of June 30, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," or ASU 2014-09, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," or ASU 2015-14, that deferred the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. In 2016, the FASB issued the following amendments to ASC 606: ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the implementation guidance on principal versus agent considerations; ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which clarifies guidance on identification of performance obligations and licensing implementation; ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which provides clarifying guidance on assessing collectibility, presentation of sales taxes, noncash consideration, contract modifications and completed contracts; and ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which clarifies narrow aspects of ASC 606 or corrects unintended application of the guidance. ASC 606 will be effective for us beginning in its first quarter of 2018. The new revenue standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption. We plan to adopt the standard using the modified retrospective method.

We continue to evaluate all potential impacts of the new standard, as well as the changes that may be required to systems, processes and internal controls to meet the new standard's reporting and disclosure requirements. We currently believe the most significant impact relates to our accounting for arrangements that include contractual provisions providing for periodic price increases or price increases that are dependent upon external factors such as an RCFI's increase in usage. Additionally, under current GAAP, we deferred only direct and incremental commission costs to obtain a contract and amortized those costs over the term of the related contract. Under the new standard, we will likely be required to defer all incremental costs related to the customer contract and amortize those costs over the expected period of customer benefit. We are still evaluating the impact of the new standard on arrangements that include the mentioned contractual provisions, increases in usage, and the impact of the deferral of all incremental costs of obtaining a contract with a customer and the appropriate amortization period for such costs.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early application is permitted. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as right-of-use assets and operating lease liabilities upon the adoption of ASU 2016-02, which will increase the total

assets and total liabilities that we report relative to such amounts prior to adoption.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," or ASU 2016-09, which amends Accounting Standards Codification ("ASC") Topic 718, "Compensation – Stock Compensation." ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The

Table of Contents

standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. We adopted this standard as of January 1, 2017 and have elected to not use a forfeiture rate as of January 1, 2017. The adoption resulted in a cumulative-effect adjustment to retained earnings of $0.2 million, which was included in the condensed consolidated financial statements for the quarter ended March 31, 2017.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," to clarify and provide specific guidance on eight cash flow classification issues that are not addressed by current GAAP and thereby reduce the current diversity in practice. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which provides guidance on the classification of restricted cash in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. We have early adopted this standard as of January 1, 2017, and its adoption did not have a material impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323)" to clarify the scope of Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. This ASU amends the disclosure requirements for ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ASU No. 2016-02, "Leases (Topic 842)" and ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU states that if a registrant does not know or cannot reasonably estimate the impact that the adoption of the above ASUs is expected to have on the financial statements, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. This ASU was effective upon issuance. We adopted this ASU and added qualitative financial statement disclosures as necessary.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test and requires an entity to write down the carrying value of goodwill up to the amount by which the carrying amount of a reporting unit exceeds its fair value. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718)" to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our condensed consolidated financial statements.

Table of Contents

Critical Accounting Policies and Estimates

The preparation of our interim unaudited condensed consolidated financial statements in accordance with GAAP requires estimates, judgments and assumptions that affect the reported amounts and classifications of assets and liabilities, revenues and expenses and the related disclosures of contingent liabilities in our interim unaudited condensed consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the following critical accounting policies and estimates:

- Revenue recognition;
- Deferred revenues;
- Deferred implementation costs;
- Deferred solution and other costs;
- Accounts receivable, net;
- Stock-based compensation;
- Purchase price allocation, intangible assets and goodwill;
- Capitalization of software development costs; and
- Income taxes.

We have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results. See Note 2 Summary of Significant Accounting Policies to the interim unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. Of those policies, we believe that the accounting policies enumerated above involve the greatest degree of complexity and exercise of judgment by our management.

There were no other significant changes in our critical accounting policies or estimates which were included in the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2016, which are included in our Annual Report on Form 10-K, filed with the SEC on February 21, 2017.

We evaluate our estimates, judgments and assumptions on an ongoing basis, and while we believe that our estimates, judgments and assumptions are reasonable, they are based upon information available at the time. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument might change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we might enter into exchange rate hedging arrangements to manage the risks described below.

Interest Rate Risk

We have cash and cash equivalents held primarily in cash and money market funds. In addition, we have marketable securities which are primarily held in U.S. government agency bonds, corporate bonds and commercial paper, and certificates of deposit. Cash and cash equivalents are held for working capital purposes. Marketable securities are held and invested with capital preservation as the primary objective. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Further, the expiration of our Credit Facility on April 11, 2017 reduced our market risk related to changes in interest rates, to the extent that such risk existed before the termination. Any declines in interest rates will reduce future interest income. If overall interest rates fell by 10% in 2017 or 2016, our interest income would not have been materially affected.

Table of Contents

Foreign Currency Risk

Our results of operations and cash flows are not subject to fluctuations due to changes in foreign currency exchange rates. We bill our customers in U.S. dollars and receive payment in U.S. dollars, and substantially all of our operating expenses are denominated in U.S. dollars. If we grow sales of our solutions outside the U.S., our agreements with foreign customers may not be denominated in U.S. dollars, and we may become subject to changes in currency exchange rates.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to reduce its effects through pricing strategies, productivity improvements and cost reductions. 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.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three-month period covered by this Quarterly Report on Form 10-Q, which were identified in connection with management's evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Management believes that there are no claims or actions pending against us, the ultimate disposition of which would have a material impact on our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

Reference is made to the factors set forth under the caption “Special Note Regarding Forward-Looking Statements” in Part I, Item 2 of this Quarterly Report on Form 10-Q and other risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which are incorporated herein by reference. There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

On March 25, 2014, we completed our IPO of 7,760,870 shares of common stock, at a price of $13.00 per share, before underwriting discounts and commissions, and on April 2, 2014 we completed the sale of an additional 1,164,131 shares of our common stock, at a price of $13.00 per share, before underwriting discounts and commissions, as a result of the underwriters' exercise of their over-allotment option to purchase additional shares. We sold 7,414,131 of such shares and existing stockholders sold an aggregate of 1,510,870 of such shares. We did not receive any proceeds from the sale of shares by the selling stockholders in the IPO. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-193911), which was declared effective by the SEC on March 19, 2014.

There have been no material changes in the planned use of proceeds from our IPO from that described in the final prospectus filed with the SEC pursuant to Rule 424(b) on March 20, 2014. With a portion of the proceeds of the IPO, we repaid approximately $6.2 million of our outstanding indebtedness under our Credit Facility, completed the acquisition of Centrix for total consideration of $21.0 million in cash (which included an escrow amount of $2.0 million), completed the acquisition of Social Money for $10.7 million in cash, paid $7.0 million to the former Centrix shareholders based upon the achievement of certain milestones and continued employment with Q2, and completed an asset purchase for $1.5 million in cash in January 2017, which includes a hold-back of $150,000 payable 12 months after closing date less the portion of any indemnifiable claims. The former shareholders of Centrix have the right to receive an additional $2.0 million based upon continued employment of certain shareholders, which will also be funded through the use of a portion of the proceeds of the IPO.

On March 4, 2015, we completed a follow-on offering of 5,890,705 shares of our common stock at a price of $19.75 per share, before underwriting discounts and commissions, including 768,352 shares of our common stock resulting from the underwriters' exercise of their over-allotment option. We sold 1,757,290 of such shares and existing stockholders sold an aggregate of 4,133,415 of such shares. We did not receive any proceeds from the sale of shares by the selling stockholders in the March follow-on offering. The offer and sale of all of the shares in the March follow-on offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-202109), which was declared effective by the SEC on February 26, 2015. There have been no material changes in the planned use of proceeds from the March follow-on offering from that described in the final prospectus filed with the SEC pursuant to Rule 424(b) on February 27, 2015.

Table of Contents

On September 30, 2015, we completed a follow-on offering of 3,798,996 shares of our common stock at a price of $25.50 per share, before underwriting discounts and commissions, and on October 15, 2015 we completed the sale of an additional 569,850 shares of our common stock, at a price of $25.50 per share, before underwriting discounts and commissions, as a result of the underwriters' exercise of their over-allotment option to purchase additional shares. We sold 853,409 of such shares and existing stockholders sold an aggregate of 3,515,437 of such shares. We did not receive any proceeds from the sale of shares by the selling stockholders in this follow-on offering or as a result of the underwriters exercising their over-allotment option in this offering. The offer and sale of all of the shares in the September follow-on offering were registered under the Securities Act pursuant to a registration statement on Form S-3 (File No. 333-206869), which was declared effective by the SEC on September 24, 2015. There have been no material changes in the planned use of proceeds from our September follow-on offering from that described in the final prospectus filed with the SEC pursuant to Rule 424(b) on September 25, 2015.

(c) Repurchases

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased[1]	Average Price Paid Per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Be Purchased Under the Plans or Programs
April 1 - 30, 2017	—	$ —	$ —	$ —
May 1 - 31, 2017	3,305	39.36	—	—
June 1 - 30, 2017	291	39.95	—	—
Total	3,596	$ 39.41	$ —	$ —

(1) Total shares purchased are attributable to shares of common stock tendered to us by one or more holders of common stock options to cover the exercise price of options exercised.

(2) Reflects the closing price of Q2 shares as reported on the New York Stock Exchange on the date of exercise.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The information required by this Item is set forth on the exhibit index that follows the signature page of this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

Q2 HOLDINGS, INC.

August 3, 2017	By:	/s/ MATTHEW P. FLAKE Matthew P. Flake Chief Executive Officer (Principal Executive Officer)
August 3, 2017	By:	/s/ JENNIFER N. HARRIS Jennifer N. Harris Chief Financial Officer (Principal Financial and Accounting Officer)

Table of Contents

INDEX TO EXHIBITS

Exhibit Number		Description of Document
3.1	*	Fourth Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.2 of the Registrant's Form S-1 Registration Statement (Registration No. 333-193911)).
3.2	*	Amended and Restated Bylaws of the Registrant (filed as Exhibit 3.4 of the Registrant's Form S-1 Registration Statement (Registration No. 333-193911)).
31.1	**	Certification of Chief Executive Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	**	Certification of Chief Financial Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	#	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.
32.2	#	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
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.

* Incorporated herein by reference to the indicated filing.
** Filed herewith.
# Furnished herewith.