

Q2 Holdings, Inc.
Form 424B4
February 27, 2015

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Q2 HOLDINGS, INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[Table of Contents](#)

Filed Pursuant to Rule 424(b)(4)
Registration File No. 333-202109

Table of Contents

Table of Contents

TABLE OF CONTENTS

	Page
<u>Prospectus Summary</u>	<u>1</u>
<u>Risk Factors</u>	<u>12</u>
<u>Special Note Regarding Forward-Looking Statements and Industry Data</u>	<u>38</u>
<u>Use of Proceeds</u>	<u>39</u>
<u>Market Price of Common Stock</u>	<u>40</u>
<u>Dividend Policy</u>	<u>41</u>
<u>Capitalization</u>	<u>42</u>
<u>Dilution</u>	<u>43</u>
<u>Selected Consolidated Financial and Other Data</u>	<u>44</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>47</u>
<u>Business</u>	<u>71</u>
<u>Management</u>	<u>88</u>
<u>Executive Compensation</u>	<u>97</u>
<u>Certain Relationships and Related Party Transactions</u>	<u>108</u>
<u>Principal and Selling Stockholders</u>	<u>114</u>
<u>Description of Capital Stock</u>	<u>117</u>
<u>Shares Eligible for Future Sale</u>	<u>122</u>
<u>Material U.S. Federal Income Tax Consequences to Non-U.S. Holders of Common Stock</u>	<u>125</u>
<u>Underwriting</u>	<u>129</u>
<u>Legal Matters</u>	<u>135</u>
<u>Experts</u>	<u>135</u>
<u>Where You Can Find Additional Information</u>	<u>136</u>
<u>Index to Consolidated Financial Statements</u>	<u>F-1</u>

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

For investors outside the U.S.: None of us, the selling stockholders or any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the U.S. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and is a brief overview of key aspects of the offering. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes and the information set forth in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Some of the statements in this prospectus constitute forward-looking statements. See the section titled "Special Note Regarding Forward-Looking Statements and Industry Data" for more information. In this prospectus "Company," "Q2," "we," "us," and "our" refer to Q2 Holdings, Inc. and its subsidiaries.

Overview

Q2 is a leading provider of secure, cloud-based virtual banking solutions. We enable regional and community financial institutions, or RCFIs, to deliver a robust suite of integrated virtual banking services and engage more effectively with their retail 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-built 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.

Our founding team has provided software solutions to the RCFI market for over 20 years, and they started Q2 with the mission of using technology to help RCFIs succeed and strengthen the communities they serve. We leverage our deep domain expertise to develop highly-secure virtual banking solutions designed to help our customers compete in the complex and heavily-regulated financial services industry. We internally design and develop our solutions around a common platform that tightly integrates our solutions with each other and with our customers' internal and third-party systems. This integrated approach delivers to account holders a unified and robust virtual banking experience across online, mobile, voice and tablet channels and allows for close, lasting relationships. We designed our solutions and data center infrastructure to comply with the stringent security and technical regulations applicable to financial institutions and to safeguard our customers and their account holders.

The RCFI market includes approximately 13,000 banks and credit unions that compete to provide financial services in the U.S. RCFIs have historically sought to differentiate themselves and build account holder loyalty by providing localized, in-branch banking services and serving as centers of commerce and influence in their communities. However, account holders increasingly engage with their financial services providers across digital channels rather than in physical branches, making it easier for account holders to access competitive financial services and more difficult for RCFIs to maintain account holder loyalty. Innovation in financial services technologies, the proliferation of mobile and tablet devices and evolving consumer expectations for modern and intuitive user experiences are pressuring RCFIs to deliver advanced virtual banking services to successfully compete and grow.

RCFIs, unlike larger national banks, typically operate without all of the resources and personnel required to effectively deploy, manage and enhance their own internally-developed virtual banking offerings. In addition, RCFIs are required to spend increasing amounts of time and money complying with rapidly changing federal and state rules and regulations and frequent examinations by regulatory agencies. As a result, RCFIs are challenged to satisfy account holder expectations and compete effectively in what has become a complex and dynamic environment. These challenges often cause RCFIs to rely on disparate, third-party and internally-developed point systems to deliver virtual banking services. However, many of these systems provide limited features and functionality or can be expensive and time-intensive to implement, maintain and upgrade.

Table of Contents

According to a January 2014 report published by Celent entitled "*IT Spending in Banking, A North American Perspective*," U.S. financial institutions are expected to spend \$53.5 billion in 2015 on information technology, or IT. Of this amount, the report forecasts that these institutions will spend approximately \$13.8 billion on new initiatives, heavily focused on enhancing their online, mobile, tablet and other self-service banking capabilities. Based on our current prices and virtual banking solutions, we believe that the RCFI market is greater than \$3.5 billion annually. Our current RCFI customers represent less than 3% of the 12,994 federally-insured RCFIs in the U.S. We believe we can capture an increasing portion of the IT spend among RCFIs as we continue to grow our customer base and introduce new solutions.

Our software-as-a-service, or SaaS, delivery model is designed to scale with our customers as they add account holders on our solutions and expand the breadth of virtual banking services they offer. We recently added Q2 Treasury which is designed to support RCFIs in their efforts to attract and retain larger commercial accounts. Our SaaS delivery model is also designed to reduce the cost and complexity of implementing, maintaining and enhancing the virtual banking services our RCFI customers provide to their account holders. RCFIs can configure our solutions to function in a manner that is consistent with their specific workflows, processes and controls and personalize the experiences they deliver to their account holders by extending the services and local character of their branches across digital channels.

We primarily sell subscriptions to our cloud-based solutions through our direct sales organization and recognize the related revenues over the terms of our customer agreements. The initial term of our customer agreements averages over five years, although it varies by customer. Our revenues increase as we add new customers and sell additional solutions to existing customers and as our customers increase the number of account holders on our solutions. We earn additional revenues based on the number of bill-pay and certain other transactions that account holders perform on our virtual banking solutions in excess of the levels included in our standard subscription fee. We support the efforts of our sales organization through a network of key referral partners, such as the American Bankers Association, National Association of Federal Credit Unions and Western Independent Bankers.

As of December 31, 2014, we had over 360 customers with more than 4.3 million retail and commercial users registered on our solutions, and these registered users executed over \$265 billion in financial transactions with our solutions during 2014, compared with over 330 customers as of December 31, 2013 whose 3.1 million registered users executed over \$200 billion in financial transactions on our solutions during 2013. As we have grown our customer base over time, the size of our customers has also increased. Our current RCFI customers are in 47 states and include Camden National Bank, Community Bank (Los Angeles, CA), Elements Financial, First Financial Bank (Cincinnati, OH), Heartland Financial, Peoples Bank of Alabama, Rockland Trust Company, Umpqua Bank and United Heritage Credit Union.

We have achieved significant growth since our inception. We had total revenues of \$41.1 million, \$56.9 million and \$79.1 million in 2012, 2013 and 2014, respectively. We seek to deepen and grow our customer relationships by providing consistent, high-quality implementation and customer support services which we believe drives higher customer retention and incremental sales opportunities within our existing customer base.

We have invested, and intend to continue to invest, to grow our business by expanding our sales and marketing activities, developing new solutions, enhancing our existing solutions and technical infrastructure and scaling our operations. We incurred net losses of \$8.8 million, \$17.9 million and \$19.6 million in 2012, 2013 and 2014, respectively.

Table of Contents

Industry Background

RCFIs are a substantial and critical part of the economy

Regional and community banks and credit unions with less than \$50 billion in assets comprised 12,994 of the 13,031 federally-insured financial institutions in the U.S., as of September 30, 2014, according to data compiled by BauerFinancial, Inc., or BauerFinancial. Further, banking institutions and credit unions with less than \$50 billion in assets had assets of \$4.5 trillion and \$1.1 trillion, respectively, as of September 30, 2014, according to BauerFinancial.

The U.S. financial services market is intensely competitive, and RCFIs have historically sought to differentiate themselves by obtaining deposits and making lending decisions on a local basis and providing local, personalized banking services that are responsive to the changing needs and circumstances of their communities. As a result, RCFIs often develop strong, lasting relationships with their account holders and serve as centers of commerce and influence in their communities. According to a 2014 report from the Small Business Administration, small businesses (typically those independent businesses with fewer than 500 employees) have generated 60% of all net new jobs in the U.S. since mid-2013, and according to FDIC data as of September 30, 2014, RCFIs underwrote approximately 76% of all loans to these businesses during the first nine months of 2014.

RCFIs must respond to innovations in banking

According to a 2012 survey conducted by the Independent Community Bankers of America and a 2012 report from the National Credit Union Administration, approximately 96% of U.S. banks and 71% of U.S. credit unions offer online banking services to their retail and commercial account holders. For example, 72% of U.S. adults are expected to utilize online banking services by 2017 according to a report titled Trends 2014: North American Digital Banking published by Forrester Research, Inc., or Forrester, on April 22, 2014. To appeal to, better engage with and sell more products and services to the growing number of account holders who utilize virtual banking services, RCFIs must deliver robust virtual banking capabilities that allow account holders to seamlessly transition between physical branches and digital channels.

The proliferation of mobile and tablet devices and evolving consumer expectations for modern and intuitive user experiences increase the challenges of offering virtual banking solutions

The proliferation of smart mobile and tablet devices expands the channels through which account holders can perform virtual banking activities, decreasing the need to visit physical bank branches. The accelerating adoption of these devices and the extension of virtual banking services into these devices are making it increasingly difficult to provide a consistent, intuitive and personalized user experience and driving the need for virtual banking solutions that support new and rapidly changing mobile operating systems and device types.

Prominent consumer brands such as Amazon, Google and Netflix are continually innovating and shaping consumer expectations by delivering modern, intuitive user experiences across digital channels. As a result, RCFIs must deliver compelling user experiences to satisfy account holder expectations and increase account holder loyalty.

Security is of paramount importance in virtual banking

As the adoption and use of virtual banking services has increased, the incidence of fraud and theft in digital channels has grown substantially. For example, according to a 2014 report by Javelin Strategy & Research, fraud resulting from account takeover attacks affected 43% more consumers in 2013 compared to 2012 and losses therefrom exceeded \$5.0 billion in 2013. In December 2014, International Data Corporation, or IDC, predicted that global financial institutions will spend

Table of Contents

\$2.8 billion by 2016 on fraud and financial crimes analytics software and services. In addition, according to a 2014 report by Verizon Communications Inc., or Verizon, financial services companies accounted for 34% of all security incidents with confirmed victims of data loss in 2013, which was more than two times the public sector, the next highest industry category. Safeguarding RCFI and account holder funds and information becomes increasingly complex as virtual banking services grow and extend across new channels and devices.

Market dynamics are driving demand for third-party solutions

RCFIs, unlike larger national banks, typically operate without all of the resources and personnel required to effectively deploy, manage and enhance their own internally-developed virtual banking service offerings. In addition, RCFIs are having to commit additional time and resources to comply with rapidly changing federal and state rules and regulations and frequent regulatory examinations. These market dynamics are driving greater demand among RCFIs for modern, intuitive virtual banking solutions from leading third-party providers.

Organizations are increasingly transitioning to SaaS providers

SaaS solutions can provide a number of benefits to RCFIs, such as lower costs of ownership and operation, improved performance and integration, greater flexibility and scalability, easier deployment of upgrades and enhancements and efficient compliance with regulatory requirements.

Traditional virtual banking systems have limitations

Many traditional virtual banking systems were originally developed over a decade ago to address a single type of account holder or specific digital channel, such as voice banking. These systems can create challenges for RCFIs, such as increased implementation costs and delayed time-to-market due to the need to integrate applications and digital channels from multiple vendors and incremental time and expense to train account holders and internal personnel on the use of different point systems.

We believe innovation in financial services technologies, the proliferation of mobile and tablet devices and evolving consumer expectations for modern and intuitive user experiences, combined with the limitations of traditional systems, create a significant opportunity for a SaaS provider to address the challenges RCFIs face as they seek to increase their level of engagement with account holders across digital channels and drive account holder loyalty. We believe this opportunity creates a substantial and growing market for cloud-based virtual banking solutions that deliver modern, intuitive self-service banking capabilities with a compelling and personalized user experience across digital channels and devices, while complying with regulatory requirements and safeguarding RCFIs and their account holders from fraud and theft.

Our Solutions

We provide secure, compliant cloud-based software solutions designed to enable RCFIs to grow their account holder bases and increase their profitability and market share by leveraging the power of virtual banking. Our solutions are often the most frequent point of interaction between our RCFI customers and their account holders. As such, we purpose-built our solutions to deliver a compelling, consistent user experience across digital channels and devices, promoting account holder acquisition and retention and creating incremental sales opportunities.

Key Attributes Our virtual banking solutions include the following key attributes:

Common platform: Our solutions all operate on a common platform that supports the delivery of unified virtual banking services across online, mobile, voice and tablet channels.

Table of Contents

Tablet-first design: We initially design the features and user experience of our solutions to be optimized for touch-based tablet devices and then extend that design to other digital channels, enabling our solutions to deliver a modern, unified user experience across digital channels.

Comprehensive view of account holders: Our cloud-based solutions and common platform provide our customers with a comprehensive view of account holder access and activity across devices and channels.

Flexible integration: We have developed a highly flexible set of integration tools, enabling the rapid integration of third-party applications and data sources.

SaaS delivery model: We developed our solutions to be cloud-based, and we host our solutions for substantially all of our RCFI customers.

Regulatory compliance: Our solutions leverage our deep domain expertise and the significant investments we have made in the design and development of our data center architecture and other technical infrastructure to meet the stringent security and technical regulations applicable to financial institutions.

Security: Our solutions provide both behavioral analytics and policy-based decision prompts to identify suspect transactions and allow RCFI administrators to analyze transaction activity.

Key Benefits We believe our solutions provide the following key benefits to our RCFI customers and their account holders:

Delivery of robust virtual banking services across digital channels: Our cloud-based solutions enable our RCFI customers to deliver robust and integrated virtual banking services to their account holders who increasingly expect and appreciate the freedom to bank anytime, anywhere and on any device.

Improved and more frequent engagement with account holders: The breadth of our virtual banking solutions and quality of the user experience they provide enable our RCFI customers to increase the frequency and effectiveness of their interactions with account holders.

Drive account holder loyalty: We believe our RCFI customers are able to drive account holder loyalty by increasing their level of engagement with account holders and consolidating their virtual banking activities on a single platform across devices and digital channels.

More effective marketing of products and services: Our customers' marketing of their new and existing products and services through our solutions can be more frequent, timely and targeted than through traditional advertising.

Real-time security: Our integrated Q2 Risk & Fraud Analytics offering allows our customers to better identify suspect activities and protect against fraud and theft prior to funds leaving the financial institution by monitoring and understanding the behavior and activities of their account holders across channels.

Lower total cost of ownership: Our SaaS delivery model can reduce the total cost of ownership of our customers by providing on a subscription basis the development, implementation, integration, maintenance, monitoring and support of our cloud-based solutions.

Facilitate regulatory compliance: Customers who use our cloud-based solutions are able to satisfy security and technical compliance obligations by relying on the security programs and regulatory certification of our data centers and other technical infrastructure.

Table of Contents

Our Business Strengths

We believe our position as a leading provider of virtual banking solutions to our RCFI customers stems from the following strengths:

Our purpose-built solutions lead the RCFI virtual banking market: Our common platform was created to support the proliferation of mobile and tablet devices, tightly integrate with the disparate systems within RCFIs and provide a compelling, unified user experience to retail and commercial account holders using a single login anywhere, anytime and on any device.

We have a proven track record in the markets we serve: Our founders, management and employees have the deep industry-specific experience needed to drive our continued growth and expansion.

Our customer acquisition model is focused and efficient: We focus our customer acquisition efforts exclusively on the well-defined RCFI market which allows us to effectively direct our sales and marketing efforts.

We grow our customer relationships over time: We employ a structured strategy designed to inform, educate and enhance customer confidence and help our customers identify and implement additional solutions designed to benefit and grow their account holder bases.

Our revenues are highly predictable: Our long-term agreements and high customer retention, as well as the growth over time in the number of account holders using our solutions, drive the recurring nature of our revenues and provide us with significant visibility into future revenues.

Our award-winning culture drives innovation and customer success: We believe our award-winning, innovation-focused culture and the location of our operations in Austin, Texas facilitate recruiting and retaining top development, integration and design talent.

Our Growth Strategy

We are pursuing the following growth strategies:

Further penetrate our large market opportunity: Our current customers represent less than 3% of the 12,994 federally-insured RCFIs in the U.S. We intend to further penetrate our large market opportunity and increase our number of RCFI customers through investments in our sales and marketing organizations and related activities.

Grow revenues by expanding our relationships with existing customers: We believe there is significant opportunity to expand our relationships with existing customers by selling additional solutions such as mobility applications, remote check deposit, treasury management solutions and mobile bill payment and to grow our revenues as these customers increase the number of account holders on our solutions.

Continue to expand our solutions and enhance our platform: We intend to continue to invest in our software development efforts and introduce new solutions that are largely informed by and aligned with the business objectives of our existing and new customers.

Further develop our partner relationships: We plan to leverage our partner ecosystem and cultivate new partner relationships to increase the awareness of our solutions.

Selectively pursue acquisitions and strategic investments: We regularly evaluate strategic opportunities and anticipate that we will selectively pursue acquisitions of and strategic investments in businesses and technologies that will strengthen and expand the features and functionality of our solutions or provide access to new customers.

Table of Contents

Risks Affecting Our Business

Our business is subject to a number of risks that you should understand before making an investment decision. These risks are discussed more fully in the section titled "Risk Factors" following this prospectus summary. Some of our most significant risks are:

we have experienced rapid growth in recent periods, including an increase in the size of our customers, and if we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and customer satisfaction or adequately address competitive challenges, and our financial performance may be adversely affected;

if the market for our cloud-based virtual banking solutions develops more slowly than we expect or changes in a way that we fail to anticipate, our growth may slow and our operating results would be harmed;

our business could be adversely affected if our customers are not satisfied with our virtual banking solutions, particularly as we introduce new products and solutions, or our systems and infrastructure fail to meet their needs;

our limited operating history makes it difficult to evaluate our current business and future prospects;

the markets in which we participate are intensely competitive, and pricing pressure, new technologies or other competitive dynamics could adversely affect our business and operating results;

if we are unable to effectively integrate our solutions with other systems used by our customers and prospective customers, or if there are performance issues with such third-party systems, our solutions will not operate effectively and our operations will be adversely affected;

our customers are highly regulated and subject to a number of challenges and risks, and our failure to comply with laws and regulations applicable to us as a technology provider to financial institutions and to enable our RCFI customers to comply with the laws and regulations applicable to them could adversely affect our business and results of operations, increase costs and impose constraints on the way we conduct our business;

if our or our customers' security measures are compromised or unauthorized access to customer data is otherwise obtained, our solutions may be perceived as not being secure, customers may curtail or cease their use of our solutions, our reputation may be harmed, and we may incur significant liabilities; and

we may experience quarterly fluctuations in our operating results due to a number of factors, which makes our future results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Upon completion of this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their respective affiliates, will beneficially own, in the aggregate, approximately 59.3% of our outstanding common stock. See "Risk Factors - Insiders will continue to have substantial control over us after this offering, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us."

Corporate Information

We were incorporated in March 2005 in the state of Delaware under the name CBG Holdings, Inc. We changed our name to Q2 Holdings, Inc. in March 2013. We are headquartered in Austin, Texas, and our principal executive offices are located at 13785 Research Blvd, Suite 150, Austin, Texas 78750. Our telephone number is (512) 275-0072.

Table of Contents

Our website address is www.q2ebanking.com. The information contained in, or that can be accessed through, our website is not part of this prospectus. Investors should not rely on any such information in deciding whether to purchase our common stock. Investors, the media and others should note that we announce material information to the public through filings with the Securities and Exchange Commission, or the SEC, the investor relations page on our website, press releases, public conference calls and webcasts.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we have elected to take advantage of certain exemptions from various public company reporting requirements, including not being required to have our internal control over financial reporting audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions until we are no longer an "emerging growth company."

"Q2" and its respective logos are our trademarks. Solely for convenience, we refer to our trademarks in this prospectus without the and ® symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to our trademarks. Other service marks, trademarks and trade names referred to in this prospectus are the property of their respective owners. As indicated in this prospectus, we have included market data and industry forecasts that we obtained from industry publications and other sources.

Table of Contents

The Offering

Common stock offered by us	1,500,000 shares
Common stock offered by selling stockholders	3,622,353 shares
Common stock to be outstanding after this offering	36,195,544 shares
Option to purchase additional shares	768,352 shares
Use of proceeds	We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including to finance our expected growth, develop new technologies, fund capital expenditures, or expand our existing business through investments in or acquisitions of other businesses or technologies. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See "Use of Proceeds."
Risk Factors	See "Risk Factors" for a discussion of factors that you should consider carefully before deciding whether to purchase shares of our common stock.
NYSE symbol	QTWO

Our fiscal year ends on December 31. Except as otherwise indicated, all information in this prospectus (i) is based upon 34,695,544 shares of common stock outstanding as of December 31, 2014 and (ii) excludes:

6,110,953 shares issuable upon the exercise of options outstanding as of December 31, 2014, having a weighted average exercise price of \$5.90 per share;

28,430 shares of common stock subject to restricted stock unit agreements outstanding as of December 31, 2014;

1,406,526 shares, subject to increase on an annual basis, available for future issuance under our 2014 Equity Incentive Plan; and

800,000 shares, subject to increase on an annual basis, reserved for future issuance under our 2014 Employee Stock Purchase Plan.

Unless otherwise noted, the information in this prospectus assumes:

the underwriters do not exercise their option to purchase additional shares; and

no exercise of the outstanding options and no issuance of shares with respect to the restricted stock units, each as described above.

Table of Contents**SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA**

The following tables summarize the consolidated financial and operating data for the periods indicated. The summary consolidated statements of operations data for the years ended December 31, 2012, 2013 and 2014 and the summary consolidated balance sheet data as of December 31, 2014 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. We derived the summary financial data for the year ended December 31, 2011 from audited financial statements not included in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read the summary financial data presented below in conjunction with our consolidated financial statements and related notes and the sections titled "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,			
	2011	2012	2013	2014
(in thousands, except per share data)				
Consolidated Statements of Operations Data:				
Revenues	\$ 26,982	\$ 41,101	\$ 56,872	\$ 79,129
Cost of revenues(1)(2)	14,795	25,170	36,261	46,054
Gross profit	12,187	15,931	20,611	33,075
Operating expenses:				
Sales and marketing(2)	5,589	8,962	16,726	23,069
Research and development(2)	3,428	5,317	9,029	12,086
General and administrative(2)	4,857	8,780	11,742	16,991
Unoccupied lease charges(3)			236	
Total operating expenses	13,874	23,059	37,733	52,146
Loss from operations	(1,687)	(7,128)	(17,122)	(19,071)
Total other expense, net	(76)	(228)	(499)	(492)
Loss before income taxes	(1,763)	(7,356)	(17,621)	(19,563)
Provision for income taxes	(132)	(164)	(55)	(71)
Loss from continuing operations	(1,895)	(7,520)	(17,676)	(19,634)
Loss from discontinued operations, net of tax(4)	(1,132)	(1,259)	(199)	
Net loss	\$ (3,027)	\$ (8,779)	\$ (17,875)	\$ (19,634)
Net loss per common share:				
Loss from continuing operations per common share, basic and diluted	\$ (0.17)	\$ (0.66)	\$ (1.49)	\$ (0.67)
Loss from discontinued operations per common share, basic and diluted	\$ (0.10)	\$ (0.11)	\$ (0.02)	\$
Net loss per common share, basic and diluted	\$ (0.27)	\$ (0.77)	\$ (1.51)	\$ (0.67)

Edgar Filing: Q2 Holdings, Inc. - Form 424B4

Weighted average common shares outstanding:

Basic and diluted	11,326	11,345	11,866	29,257
-------------------	--------	--------	--------	--------

Table of Contents

	Year Ended December 31,			
	2011	2012	2013	2014
	(in thousands, except per share data)			
Other Financial Data:				
Adjusted EBITDA(5)	\$ (277)	\$ (4,400)	\$ (12,310)	\$ (10,418)

- (1) Includes reclassified costs of research and development personnel who performed certain implementation and customer support services as follows:

	Year Ended December 31,			
	2011	2012	2013	2014
Research and development costs reclassified into cost of revenues	\$ 434	\$ 1,390	\$ 1,572	\$ 1,412

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

	Year Ended December 31,			
	2011	2012	2013	2014
Cost of revenues	\$ 52	\$ 187	\$ 264	\$ 623
Sales and marketing	52	123	274	774
Research and development	57	195	257	527
General and administrative	236	526	810	2,646
Total stock-based compensation expenses	\$ 397	\$ 1,031	\$ 1,605	\$ 4,570

- (3) Unoccupied lease charges include costs related to our early exit from our previous headquarters, partially offset by anticipated sublease income from that facility.
- (4) We previously had a subsidiary which we fully divested in March 2013. Loss from discontinued operations, net of tax reflects the financial results of this divested subsidiary.
- (5) We define adjusted EBITDA as net loss before depreciation, amortization, loss from discontinued operations, stock-based compensation, provision for income taxes, total other expense, net, unoccupied lease charges and loss on disposal of long-lived assets. See "Selected Consolidated Financial and Other Data" for more information and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

	As of December 31, 2014	
	Actual	As Adjusted(1)
Consolidated Balance Sheet Data:		
Cash and cash equivalents	\$ 67,979	\$ 95,569
Total current assets	104,522	132,112
Deferred solution and other costs, total	12,219	12,219
Deferred implementation costs, total	7,374	7,374
Total current liabilities	32,887	32,887
Deferred revenues, total	36,725	36,725
Total redeemable preferred and common stock		
Total common stock	3	4

Edgar Filing: Q2 Holdings, Inc. - Form 424B4

Additional paid-in capital	143,337	170,926
Total stockholders' equity	78,940	106,530

- (1) The as adjusted balance sheet data gives effect to our issuance of and sale of 1,500,000 shares of common stock based upon the public offering price of \$19.75 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

Table of Contents

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and all other information contained in this prospectus before deciding whether to purchase shares of our common stock. Our business, prospects, financial condition or operating results could be materially adversely affected by any of these risks, which we believe are the material risks currently facing us, as well as other risks not currently known to us or that are currently considered immaterial. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and related notes, before deciding to purchase any shares of our common stock.

We have experienced rapid growth in recent periods, including an increase in the size of our customers, and if we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and customer satisfaction or adequately address competitive challenges, and our financial performance may be adversely affected.

Since our inception, our business has rapidly grown, which has resulted in large increases in our number of employees, expansion of our infrastructure, enhancement of our internal systems and other significant changes and additional complexities. Our revenues increased from \$41.1 million for the year ended December 31, 2012 to \$56.9 million for the year ended December 31, 2013 and to \$79.1 million for the year ended December 31, 2014. We also increased our total number of full-time employees from 308 as of December 31, 2012 to 501 as of December 31, 2014. While we intend to further expand our overall business, customer base, and number of employees, our recent growth rate is not necessarily indicative of the growth that we will achieve in the future. The growth in our business generally, our management of a growing workforce and customer base geographically-dispersed across the U.S. and the stress of such growth on our internal controls and systems require substantial management effort, infrastructure and operational capabilities. To support our growth, we must continue to improve our management resources and our operational and financial controls and systems, and these improvements may increase our expenses more than anticipated and result in a more complex business, and our failure to timely and effectively implement these improvements could have an adverse effect on our operations and financial results. We will also have to anticipate the necessary expansion of our relationship management, implementation, customer service and other personnel to support our growth and achieve high levels of customer service and satisfaction, particularly as we sell to larger customers that have heightened levels of complexity in their hardware, software and network infrastructure needs. Our success will depend on our ability to plan for and manage this growth effectively. If we fail to anticipate and manage our growth or are unable to provide high levels of system performance and customer service, our reputation, as well as our business, results of operations and financial condition, could be harmed.

If the market for our cloud-based virtual banking solutions develops more slowly than we expect or changes in a way that we fail to anticipate, our sales would suffer and our operating results would be harmed.

Use of and reliance on cloud-based virtual banking solutions is at an early stage, and we do not know whether RCFIs will continue to adopt virtual banking solutions such as ours in the future, or whether the market will change in ways that we do not anticipate. Many RCFIs have invested substantial personnel and financial resources in legacy software, and these institutions may be reluctant or unwilling to convert from their existing systems to our solutions. Furthermore, some RCFIs may be reluctant or unwilling to use a cloud-based solution over concerns such as the security of their data and reliability of the delivery model. These concerns or other considerations may cause RCFIs to choose not to adopt cloud-based solutions such as ours or to adopt alternative solutions, either of which would harm our operating results. If RCFIs are unwilling to transition from their legacy systems, the demand

Table of Contents

for our virtual banking solutions and related services could decline and adversely affect our business, operating results and financial condition.

Our future success also depends on our ability to sell additional solutions and enhanced solutions to our current customers. As we create new solutions and enhance our existing solutions to support new technologies and devices, these solutions and related services may not be attractive to customers. In addition, promoting and selling these new and enhanced solutions may require increasingly costly sales and marketing efforts, and if customers choose not to adopt these solutions, our business could suffer.

Our business could be adversely affected if our customers are not satisfied with our virtual banking solutions, particularly as we introduce new products and solutions, or our systems and infrastructure fail to meet their needs.

Our business depends on our ability to satisfy our customers and meet their virtual banking needs. Our customers use a variety of network infrastructure, hardware and software, which typically increases in complexity the larger the customer is, and our virtual banking solutions must support the specific configuration of our customers' existing systems, including in many cases the solutions of third-party providers. If our solutions do not currently support a customer's required data format or appropriately integrate with a customer's applications and infrastructure, then we must configure our solutions to do so, which could negatively affect the performance of our systems and increase our expenses and the time it takes to implement our solutions. Any failure of or delays in our systems could cause service interruptions or impaired system performance. Some of our customer agreements require us to issue credits for downtime in excess of certain thresholds, and in some instances give our customers the ability to terminate the agreements in the event of significant amounts of downtime. If sustained or repeated, these performance issues could reduce the attractiveness of our solutions to new and existing customers, cause us to lose customers, and lower renewal rates by existing customers, each of which could adversely affect our revenue and reputation. In addition, negative publicity resulting from issues related to our customer relationships, regardless of accuracy, may damage our business by adversely affecting our ability to attract new customers and maintain and expand our relationships with existing customers.

If the use of our virtual banking solutions increases, or if our customers demand more advanced features from our solutions, we will need to devote additional resources to improving our solutions, and we also may need to expand our technical infrastructure at a more rapid pace than we have in the past. This would involve spending substantial amounts to purchase or lease data center capacity and equipment, upgrade our technology and infrastructure and introduce new or enhanced solutions. It takes a significant amount of time to plan, develop and test changes to our infrastructure, and we may not be able to accurately forecast demand or predict the results we will realize from such improvements. There are inherent risks associated with changing, upgrading, improving and expanding our technical infrastructure. Any failure of our solutions to operate effectively with future infrastructure and technologies could reduce the demand for our solutions, resulting in customer dissatisfaction and harm to our business. Also, any expansion of our infrastructure would likely require that we appropriately scale our internal business systems and services organization, including implementation and customer support services, to serve our growing customer base. If we are unable to respond to these changes or fully and effectively implement them in a cost-effective and timely manner, our service may become ineffective, we may lose customers, and our operating results may be negatively impacted.

Our limited operating history makes it difficult to evaluate our current business and future prospects.

We began our operations in March 2005. Our limited operating history makes it difficult to evaluate our current business and future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and

Table of Contents

changing industries, including challenges in forecasting the future growth of our customer base, the number of our customers' account holders and the number of users registered to use our solutions as well as the number of transactions that registered users perform on our solutions. In addition, we have and may continue to face challenges with our infrastructure, services organization and related expenses, market acceptance of our existing and future solutions, competition from established companies with greater financial and technical resources as well as new competitive entrants, acquiring and retaining customers, managing customer implementations and developing new solutions. We cannot assure you that we will be successful in addressing these difficulties and other challenges we may face in the future.

The markets in which we participate are intensely competitive, and pricing pressure, new technologies or other competitive dynamics could adversely affect our business and operating results.

We currently compete with providers of technology and services in the financial services industry, including point system vendors and core processing vendors, as well as systems internally-developed by RCFIs. We have a number of point system competitors, including Digital Insight Corporation (acquired by NCR Corporation), First Data Corporation and ACI Worldwide, Inc. in the online, consumer and small business banking space and Fundtech Ltd., ACI Worldwide, Inc., Clear2Pay NV/SA and Bottomline Technologies (de), Inc. in the commercial banking space. We also compete with core processing vendors that provide systems and services such as Fiserv, Inc., Jack Henry and Associates, Inc. and Fidelity National Information Services, Inc. Many of our competitors have significantly more financial, technical, marketing and other resources than we have, may devote greater resources to the promotion, sale and support of their systems than we can, have more extensive customer bases and broader customer relationships than we have and have longer operating histories and greater name recognition than we have. In addition, many of our competitors expend a greater amount of funds on research and development.

We may also face competition from new companies entering our markets, which may include large established businesses that decide to develop, market or resell virtual banking solutions, acquire one of our competitors or form a strategic alliance with one of our competitors. In addition, new companies entering our markets may choose to offer virtual banking applications at little or no additional cost to the customer by bundling them with their existing applications, including adjacent banking technologies and core processing software. New entrants to the market might also include non-banking providers of payment solutions and other technologies. Competition from these new entrants may make our business more difficult and adversely affect our results.

If we are unable to compete in this environment, sales and renewals of our virtual banking solutions could decline and adversely affect our business, operating results and financial condition. With the introduction of new technologies and potential new entrants into the virtual banking solutions market, we expect competition to intensify in the future, which could harm our ability to increase sales and achieve profitability. Our industry has experienced consolidation. For example, in January 2014, NCR Corporation acquired Digital Insight Corporation. We believe that our industry could experience further consolidation, which could lead to increased competition and result in pricing pressure or loss of market share, either of which could have a material adverse effect on our business, limit our growth prospects or reduce our revenues.

If we are unable to effectively integrate our solutions with other systems used by our customers and prospective customers, or if there are performance issues with such third-party systems, our solutions will not operate effectively and our operations will be adversely affected.

The functionality of our solutions depends on our ability to integrate with other third-party systems used by our customers, including core processing software. Certain providers of these third-party systems also offer solutions that are competitive with our solutions and may have an advantage over us

Table of Contents

with customers using their software by having better ability to integrate with their software and by being able to bundle their competitive products with other applications used by our customers and prospective customers at favorable pricing. We do not have formal arrangements with many of these third-party providers regarding our access to their application program interfaces, or APIs, to enable these customer integrations.

Our business may be harmed if any of our third-party providers:

change the features or functionality of their applications and platforms in a manner adverse to us;

discontinue or limit our solutions' access to their systems;

terminate or do not allow us to renew or replace our existing contractual relationships on the same or better terms;

modify their terms of service or other policies, including fees charged to, or other restrictions on, us or our customers;

establish more favorable relationships with one or more of our competitors, or acquire one or more of our competitors and offer competing services; or

otherwise have or develop their own competitive offerings.

Such changes could limit or prevent us from integrating our solutions with these third-party systems, which could impair the functionality of our solutions, prohibit the use of our solutions or limit our ability to sell our solutions to customers, each of which could harm our business. If we are unable to integrate with such third-party software as a result of changes to or restricted access to the software by such third parties during the terms of existing agreements with customers using such third-party software, we may not be able to meet our contractual obligations to customers, which may result in disputes with customers and harm to our business. In addition, if any third-party software providers experience an outage, our virtual banking solutions integrated with such software will not function properly or at all, and our customers may be dissatisfied with our virtual banking solutions. If the software of such third-party providers have performance or other problems, such issues may reflect poorly on us and the adoption and renewal of our virtual banking solutions and our business may be harmed. Although our customers may be able to switch to alternative technologies if a provider's services were unreliable or if a provider was to limit such customer's access and utilization of its data or the provider's functionality, our business could nevertheless be harmed due to the risk that our customers could reduce their use of our solutions.

Our customers are highly regulated and subject to a number of challenges and risks. Our failure to comply with laws and regulations applicable to us as a technology provider to financial institutions and to enable our RCFI customers to comply with the laws and regulations applicable to them could adversely affect our business and results of operations, increase costs and impose constraints on the way we conduct our business.

Our customers and prospective customers are highly regulated and may be required to comply with stringent regulations in connection with subscribing to and implementing our virtual banking solutions. As a provider of technology to RCFIs, we are examined on a periodic basis by various regulatory agencies and required to review certain of our suppliers and partners. The examination handbook and other guidance issued by the Federal Financial Institutions Examination Council govern the examination of our operations and include a review of our systems and data center and technical infrastructure, management, financial condition, development activities and our support and delivery capabilities. If deficiencies are identified, customers may choose to terminate or reduce their relationships with us. In addition, while much of our operations are not directly subject to the same

Table of Contents

regulations applicable to RCFIs, we are generally obligated to our customers to provide software solutions and maintain internal systems and processes that comply with federal and state regulations applicable to them. In particular, as a result of obligations under our customer agreements, we are required to comply with certain provisions of the Gramm-Leach-Bliley Act related to the privacy of consumer information and may be subject to other privacy and data security laws because of the solutions we provide to RCFIs. In addition, numerous regulations have been proposed and are still being written to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including requirements for enhanced due diligence of the internal systems and processes of companies like ours by their financial institution customers. If we have to make changes to our internal processes and solutions as a result of this heightened scrutiny, we could be required to invest substantial additional time and funds and divert time and resources from other corporate purposes to remedy any identified deficiency.

This evolving, complex and often unpredictable regulatory environment could result in our failure to provide compliant solutions, which could result in customers' not purchasing our solutions or terminating their agreements with us or the imposition of fines or other liabilities for which we may be responsible. In addition, federal, state and/or foreign agencies may attempt to further regulate our activities in the future. For example, Congress could enact legislation to regulate providers of electronic commerce services as retail financial services providers or under another regulatory framework. If enacted or deemed applicable to us, such laws, rules or regulations could be imposed on our activities or our business thereby rendering our business or operations more costly, burdensome, less efficient or impossible, any of which could have a material adverse effect on our business, financial condition and operating results.

If our or our customers' security measures are compromised or unauthorized access to customer data is otherwise obtained, our solutions may be perceived as not being secure, customers may curtail or cease their use of our solutions, our reputation may be harmed, and we may incur significant liabilities.

Our operations involve access to and transmission of proprietary information and data and transaction details of our customers and their account holders. Our security measures and the security measures of our customers may not be sufficient to prevent our systems from being compromised. Security incidents could result in unauthorized access to, loss of or unauthorized disclosure of this information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales and harm our business. Cyber-attacks, account take-over attacks, fraudulent representations and other malicious Internet-based activity continue to increase and financial institutions, their account holders and virtual banking providers are often targets of such attacks. In addition, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information to gain access to our confidential or proprietary information or the data of our customers and their account holders. A party who is able to compromise the security of our facilities could cause interruptions or malfunctions in our operations. If security measures are compromised as a result of third-party action, the error or intentional misconduct of employees, customers or their account holders, malfeasance or stolen or fraudulently obtained log-in credentials, our reputation could be damaged, our business may be harmed and we could incur significant liability. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to the data of our customers and their account holders. A failure or inability to meet our customers' expectations with respect to security and confidentiality could seriously damage our reputation and affect our ability to retain customers and attract new business.

Table of Contents

Federal and state regulations may require us to notify individuals of data security incidents involving certain types of personal data. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures and widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

In addition, some of our customers contractually require notification of any data security compromise and include representations and warranties that our solutions comply with certain regulations related to data security and privacy. Although our customer agreements typically include limitations on our potential liability, there can be no assurance that such limitations of liability would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more claims, or that our insurers will not deny or attempt to deny coverage as to any future claim. The successful assertion of one or more claims against us, the inadequacy of or denial of coverage under our insurance policies, litigation to pursue claims under our policies or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations.

We may experience quarterly fluctuations in our operating results due to a number of factors, which makes our future results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly operating results have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our past results may not be indicative of our future performance. In addition to the other risks described in this prospectus, factors that may affect our quarterly operating results include the following:

the addition or loss of customers, including through acquisitions, consolidations or failures;

the amount of use of our solutions in a period and the amount of any associated revenues and expenses;

budgeting cycles of our customers and changes in spending on virtual banking solutions by our current or prospective customers;

seasonal variations in sales of our solutions, which may be lowest in the first quarter of the calendar year;

changes in the competitive dynamics of our industry, including consolidation among competitors, changes to pricing or the introduction of new products and services that limit demand for our virtual banking solutions or cause customers to delay purchasing decisions;

the amount and timing of cash collections from our customers;

long or delayed implementation times for new customers, including larger customers, or other changes in the levels of customer support we provide;

the timing of customer payments and payment defaults by customers, including any buyouts by customers of the remaining term of their contracts with us in a lump sum payment that we would have otherwise recognized over the term of those contracts;

Table of Contents

the amount and timing of our operating costs and capital expenditures;

changes in tax rules or the impact of new accounting pronouncements;

general economic conditions that may adversely affect our customers' ability or willingness to purchase solutions, delay a prospective customer's purchasing decision, reduce our revenues from customers or affect renewal rates;

unexpected expenses such as those related to litigation or other disputes;

the timing of stock awards to employees and related adverse financial statement impact of having to expense those stock awards over their vesting schedules; and

the amount and timing of costs associated with recruiting, hiring, training and integrating new employees, many of whom we hire in advance of anticipated needs.

Moreover, our stock price might be based on expectations of investors or securities analysts of future performance that are inconsistent with our actual growth opportunities or that we might fail to meet and, if our revenues or operating results fall below expectations, the price of our common stock could decline substantially.

We have a history of losses, and we do not expect to be profitable for the foreseeable future.

We have incurred losses from operations in each period since our inception in 2005, except for 2010 when we recognized a gain on the sale of a subsidiary. We incurred net losses of \$8.8 million, \$17.9 million and \$19.6 million for the years ended December 31, 2012, 2013 and 2014, respectively. As of December 31, 2014, we had an accumulated deficit of \$64.4 million. These losses and accumulated deficit reflect the substantial investments we have made to develop our solutions and acquire customers. As we seek to continue to grow our number of customers, we expect to incur significant sales, marketing, implementation and other related expenses. Our ability to achieve or sustain profitability will depend on our obtaining sufficient scale and productivity so that the cost of adding and supporting new customers does not adversely impact our margins. We also expect to make other significant expenditures to develop and expand our solutions and our business, including continuing to increase our marketing, services and sales operations and continuing our significant investment in research and development and our technical infrastructure. We expect to incur losses for the foreseeable future as we continue to focus on adding new customers, and we cannot predict whether or when we will achieve or sustain profitability. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenues enough to offset our higher operating expenses. In addition, as a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. These increased expenditures will make it harder for us to achieve and maintain profitability. While our revenues have grown in recent periods, it may not be sustainable, and our revenues could decline or grow more slowly than we expect. We also may incur additional losses in the future for a number of reasons, including due to litigation and other unforeseen reasons and the risks described in this prospectus. Accordingly, we cannot assure you that we will achieve profitability in the future, nor that, if we do become profitable, we will be able to sustain profitability. If we are unable to achieve and sustain profitability, our customers may lose confidence in us and slow or cease their purchases of our solutions and we may be unable to attract new customers, which would adversely impact our operating results.

Our sales cycle can be unpredictable, time-consuming and costly, which could harm our business and operating results.

Our sales process involves educating prospective customers and existing customers about the use, technical capabilities and benefits of our solutions. Prospective customers, especially larger financial institutions, often undertake a prolonged evaluation process, which typically involves not only our

Table of Contents

solutions, but also those of our competitors and lasts from six to nine months or longer. We may spend substantial time, effort and money on our sales and marketing efforts without any assurance that our efforts will produce any sales. It is also difficult to predict the level and timing of sales opportunities that come from our referral partners. Events affecting our customers' businesses may occur during the sales cycle that could affect the size or timing of a purchase, contributing to more unpredictability in our business and operating results. As a result of these factors, we may face greater costs, longer sales cycles and less predictability in the future.

We do not have an adequate history with our subscription or pricing models to accurately predict the long-term rate of customer subscription renewals or adoption, or the impact these renewals and adoption will have on our revenues or operating results.

We have limited experience with respect to determining the optimal prices for our solutions. As the markets for our existing solutions develop, we may be unable to attract new customers at the same price or based on the same pricing model as we have used historically. Moreover, large or influential RCFIs may demand more favorable pricing or other contract terms. As a result, in the future we may be required to reduce our prices or accept other unfavorable contract terms, each of which could adversely affect our revenues, gross margin, profitability, financial position and cash flow.

Our customers have no obligation to renew their subscriptions for our solutions after the expiration of the initial subscription term, and our customers may renew for fewer solutions or on different pricing terms, if at all. Since the average initial term of our customer agreements is over five years and we only began selling our solutions in 2005, we have limited historical data with respect to rates of customer subscription renewals, so we cannot be certain of our pricing model for renewals or the accuracy of our anticipated renewal rates. Our renewal rates may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our pricing or our solutions or their ability to continue their operations and spending levels. If our customers do not renew their subscriptions for our solutions on similar pricing terms, our revenues may decline and our business could suffer. As we create new solutions or enhance our existing solutions to support new technologies and devices, our pricing of these solutions and related services may be unattractive to customers or fail to cover our costs.

Defects or errors in our virtual banking solutions could harm our reputation, result in significant costs to us, impair our ability to sell our solutions and subject us to substantial liability.

Our virtual banking solutions are inherently complex and may contain defects or errors, particularly when first introduced or as new versions are released. Despite extensive testing, from time-to-time we have discovered defects or errors in our solutions. In addition, due to changes in regulatory requirements relating to our customers or to technology providers to financial institutions like us, we may discover deficiencies in our software processes related to those requirements. Material performance problems or defects in our solutions might arise in the future.

Any such errors, defects, other performance problems or disruptions in service to provide bug fixes or upgrades, whether in connection with day-to-day operations or otherwise, could be costly for us to remedy, damage our customers' businesses and harm our reputation. In addition, if we have any such errors, defects or other performance problems, our customers could seek to terminate their agreements, elect not to renew their subscriptions, delay or withhold payment or make claims against us. Any of these actions could result in lost business, increased insurance costs, difficulty in collecting our accounts receivable, costly litigation and adverse publicity. Such errors, defects or other problems could also result in reduced sales or a loss of, or delay in, the market acceptance of our solutions.

Moreover, software development is time-consuming, expensive, complex and requires regular maintenance. Unforeseen difficulties can arise. If we do not complete our periodic maintenance

Table of Contents

according to schedule or if customers are otherwise dissatisfied with the frequency and/or duration of our maintenance services, customers could elect not to renew, or delay or withhold payment to us or cause us to issue credits, make refunds or pay penalties. Because our solutions are often customized and deployed on a customer-by-customer basis, rather than through a multi-tenant SaaS method of distribution, applying bug fixes, upgrades or other maintenance services may require updating each instance of our software, which could be time consuming and cause us to incur significant expense. We might also encounter technical obstacles, and it is possible that we discover problems that prevent our solutions from operating properly. If our solutions do not function reliably or fail to achieve customer expectations in terms of performance, customers could seek to cancel their agreements with us and assert liability claims against us, which could damage our reputation, impair our ability to attract or maintain customers and harm our results of operations.

Failures or reduced accessibility of third-party hardware and software on which we rely could impair the delivery of our solutions and adversely affect our business.

We rely on hardware that we purchase or lease and software that we develop or license from, or that is hosted by third parties, to offer our virtual banking solutions. In addition, we obtain licenses from third parties to use intellectual property associated with the development of our solutions. These licenses might not continue to be available to us on acceptable terms, or at all. While we are not substantially dependent upon any third party hardware or software, the loss of the right to use all or a significant portion of our third party hardware or software required for the development, maintenance and delivery of our solutions could result in delays in the provision of our solutions until we develop or identify, obtain and integrate equivalent technology, which could harm our business.

Any errors or defects in the hardware or software we use could result in errors, interruptions or a failure of our solutions. Although we believe that there are alternatives, any significant interruption in the availability of all or a significant portion of such hardware or software could have an adverse impact on our business unless and until we can replace the functionality provided by these products at a similar cost. Furthermore, this hardware and software may not be available on commercially reasonable terms, or at all. The loss of the right to use all or a significant portion of this hardware or software could limit access to our solutions. Additionally, we rely upon third parties' abilities to enhance their current products, develop new products on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. We may be unable to effect changes to such third-party technologies, which may prevent us from rapidly responding to evolving customer requirements. We also may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our solutions in the event that such software becomes obsolete or incompatible with future versions of our solutions or is otherwise not adequately maintained or updated.

We depend on data centers operated by third parties and third-party Internet hosting providers, and any disruption in the operation of these facilities or access to the Internet could adversely affect our business.

We currently serve our customers from two third-party data center hosting facilities located in Austin, Texas and Carrollton, Texas. The owners and operators of these current and future facilities do not guarantee that our customers' access to our solutions will be uninterrupted, error-free or secure. We may experience website disruptions, outages and other performance problems, including problems resulting from our anticipated data center migration. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, spikes in customer usage and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. We do not control the operation of these data center facilities, and such facilities are vulnerable to damage or interruption from human error, intentional bad acts, power loss, hardware failures, telecommunications

Table of Contents

failures, fires, wars, terrorist attacks, floods, earthquakes, hurricanes, tornadoes or similar catastrophic events. They also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or terminate our hosting arrangement or other unanticipated problems could result in lengthy interruptions in the delivery of our solutions, cause system interruptions, prevent our customers' account holders from accessing their accounts online, reputational harm and loss of critical data, prevent us from supporting our solutions or cause us to incur additional expense in arranging for new facilities and support.

We also depend on third-party Internet-hosting providers and continuous and uninterrupted access to the Internet through third-party bandwidth providers to operate our business. If we lose the services of one or more of our Internet-hosting or bandwidth providers for any reason or if their services are disrupted, for example due to viruses or denial of service or other attacks on their systems, or due to human error, intentional bad acts, power loss, hardware failures, telecommunications failures, fires, wars, terrorist attacks, floods, earthquakes, hurricanes, tornadoes or similar catastrophic events, we could experience disruption in our ability to offer our solutions and adverse perception of our solutions' reliability, or we could be required to retain the services of replacement providers, which could increase our operating costs and harm our business and reputation.

We derive all of our revenues from customers in the financial services industry, and any downturn or consolidation in the financial services industry could harm our business.

All of our revenues are derived from RCFIs. RCFIs have experienced significant pressure in recent years due to economic uncertainty, liquidity concerns and increased regulation. In recent years, many RCFIs have failed, merged or been acquired. Failures and consolidations are likely to continue, and there are very few new RCFIs being created. Further, if our customers merge with or are acquired by other entities such as financial institutions that have in-house developed virtual banking solutions or that are not our customers or use fewer of our solutions, our customers may discontinue, reduce or change the terms of their use of our solutions. It is also possible that the larger RCFIs that result from mergers or consolidations could have greater leverage in negotiating terms with us or could decide to replace some or all of our solutions. In addition, any downturn in the financial services industry may cause our customers to reduce their spending on virtual banking solutions or to seek to terminate or renegotiate their contracts with us. Any of these developments could have an adverse effect on our business, results of operations and financial condition.

Because we recognize revenues from our virtual banking solutions over the terms of our customer agreements, the impact of changes in the subscriptions for our solutions will not be immediately reflected in our operating results, and rapid growth in our customer base may adversely affect our operating results in the short term since we expense a substantial portion of implementation costs as incurred.

We generally recognize revenues monthly over the terms of our customer agreements. The initial term of our customer agreements averages over five years, although it varies by customer. As a result, the substantial majority of the revenues we report in each quarter are related to agreements entered into during previous quarters. Consequently, a change in the level of new customer agreements or implementations in any quarter may have a small impact on our revenues in that quarter but will affect our revenues in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions, or changes in our rate of renewals may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period.

Table of Contents

Additionally, we recognize our expenses over varying periods based on the nature of the expense. In particular, we recognize a portion of implementation expenses as incurred even though we recognize the related revenues over extended periods. As a result, we may report poor operating results in periods in which we are incurring higher implementation expenses related to revenues that we will recognize in future periods, including implementations for larger customers that have heightened levels of complexity in their hardware, software and network infrastructure needs. Alternatively, we may report better operating results in periods due to lower implementation expenses, but such lower expenses may be indicative of slower revenue growth in future periods. As a result, our expenses may fluctuate as a percentage of revenues and changes in our business generally may not be immediately reflected in our results of operations.

As the number, size and complexity of customers that we serve increase, we may encounter implementation challenges, and we may have to delay revenue recognition for some complex engagements, which would harm our business and operating results.

We may face unexpected implementation challenges related to the complexity of our customers' implementation and integration requirements, particularly implementations for larger customers that have heightened levels of complexity in their hardware, software and network infrastructure needs. Our implementation expenses increase when customers have unexpected data, hardware or software technology challenges, or complex or unanticipated business requirements. In addition, our customers typically require complex acceptance testing related to the implementation of our solutions. Implementation delays may also require us to delay revenue recognition under the related customer agreement longer than expected. Further, because we do not fully control our customers' implementation schedules, if our customers do not allocate the internal resources necessary to meet implementation timelines or if there are unanticipated implementation delays or difficulties, our revenue recognition may be delayed. Losses of registered users or any difficulties or delays in implementation processes could cause customers to delay or forgo future purchases of our solutions, which would adversely affect our business, operating results and financial condition.

Shifts over time in the number of account holders and registered users of our solutions, their use of our solutions and our customers' implementation and customer support needs could negatively affect our profit margins.

Our profit margins can vary depending on numerous factors, including the scope and complexity of our implementation efforts, the number of account holders and registered users on our solutions, the frequency and volume of their use of our solutions and the level of customer support services required by our customers. For example, our services offerings typically have a much higher cost of revenues than subscriptions to our solutions, so any increase in sales of services as a proportion of our subscriptions would have an adverse effect on our overall gross margin and operating results. If we are unable to increase the number of registered users and the number of transactions they perform on our solutions, the types of RCFIs that purchase our solutions changes, or the mix of solutions purchased by our customers changes, our profit margins could decrease and our operating results could be adversely affected.

If we fail to provide effective customer training on our virtual banking solutions and high-quality customer support, our business and reputation would suffer.

Effective customer training on our virtual banking solutions and high-quality, ongoing customer support are important to the successful marketing and sale of our solutions and for the renewal of existing customer agreements. Providing this training and support requires that our customer training and support personnel have financial services knowledge and expertise, making it difficult for us to hire qualified personnel and scale our training and support operations. The demand on our customer

Table of Contents

support organization will increase as we expand our business and pursue new customers, and such increased support could require us to devote significant development services and support personnel, which could strain our team and infrastructure and reduce our profit margins. If we do not help our customers quickly resolve any post-implementation issues and provide effective ongoing customer support, our ability to sell additional solutions to existing and future customers could suffer and our reputation would be harmed.

If we fail to respond to evolving technological requirements or introduce adequate enhancements and new features, our virtual banking solutions could become obsolete or less competitive.

The market for our solutions is characterized by rapid technological advancements, changes in customer requirements and technologies, frequent new product introductions and enhancements and changing regulatory requirements. The life cycles of our solutions are difficult to estimate. Rapid technological changes and the introduction of new products and enhancements by new or existing competitors or large financial institutions could undermine our current market position. Other means of digital or virtual banking may be developed or adopted in the future, and our solutions may not be compatible with these new technologies. In addition, the technological needs of, and services provided by, RCFIs may change if they or their competitors offer new services to account holders. Maintaining adequate research and development resources to meet the demands of the market is essential. The process of developing new technologies and solutions is complex and expensive. The introduction of new solutions by our competitors, the market acceptance of competitive solutions based on new or alternative technologies or the emergence of new technologies or solutions in the broader financial services industry could render our solutions obsolete or less effective.

The success of any enhanced or new solution depends on several factors, including timely completion, adequate testing and market release and acceptance of the solution. Any new solutions that we develop or acquire may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the broad market acceptance necessary to generate significant revenues. If we are unable to anticipate customer requirements or work with our customers successfully on implementing new solutions or features in a timely manner or enhance our existing solutions to meet our customers' requirements, our business and operating results may be adversely affected.

If we fail to effectively expand our sales and marketing capabilities and teams, including through partner relationships, we may not be able to increase our customer base and achieve broader market acceptance of our solutions.

Increasing our customer base and achieving broader market acceptance of our virtual banking solutions will depend on our ability to expand our sales and marketing organizations and their abilities to obtain new customers and sell additional solutions and services to existing customers. We believe there is significant competition for direct sales professionals with the skills and knowledge that we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future. Our ability to achieve significant future revenue growth will depend on our success in recruiting, training and retaining a sufficient number of direct sales professionals. New hires require significant training and time before they become fully productive and may not become as productive as quickly as we anticipate. As a result, the cost of hiring and carrying new representatives cannot be offset by the revenues they produce for a significant period of time. Our growth prospects will be harmed if our efforts to expand, train and retain our direct sales team do not generate a corresponding significant increase in revenues. Additionally, if we fail to sufficiently invest in our marketing programs or they are unsuccessful in creating market awareness of our company and solutions, our business may be harmed and our sales opportunities limited.

In addition to our direct sales team, we also extend our sales distribution through formal and informal relationships with referral partners. While we are not substantially dependent upon referrals

Table of Contents

from any partner, our ability to achieve significant revenue growth in the future will depend upon continued referrals from our partners and growth of the network of our referral partners. These partners are under no contractual obligation to continue to refer business to us, nor do these partners have exclusive relationships with us and may choose to instead refer potential customers to our competitors. We cannot be certain that these partners will prioritize or provide adequate resources for promoting our solutions or that we will be successful in maintaining, expanding or developing our relationships with referral partners. Our competitors may be effective in providing incentives to third parties, including our partners, to favor their solutions or prevent or reduce subscriptions to our solutions either by disrupting our relationship with existing customers or limiting our ability to win new customers. Establishing and retaining qualified partners and training them with respect to our solutions requires significant time and resources. If we are unable to devote sufficient time and resources to establish and train these partners, or if we are unable to maintain successful relationships with them, we may lose sales opportunities and our revenues could suffer.

We rely on our management team and other key employees, and the loss of one or more key employees could harm our business.

Our success and future growth depend upon the continued services of our management team, in particular our Chief Executive Officer, and other key employees, including in the areas of research and development, marketing, sales, services and general and administrative functions. From time to time, there may be changes in our management team resulting from the hiring or departure of executives, which could disrupt our business. We also are dependent on the continued service of our existing development professionals because of the complexity of our solutions, including complexity arising as a result of the regulatory requirements that are applicable to our customers and the pace of technology changes impacting our customers and their account holders. We may terminate any employee's employment at any time, with or without cause, and any employee may resign at any time, with or without cause; however, as described in "Executive Compensation Agreements with Named Executive Officers Employment Agreement," our employment agreements with our named executive officers provide for the payment of severance under certain circumstances. We have also entered into employment agreements with our other executive officers which provide for the payment of severance under similar circumstances as in our named executive officers' employment agreements. The loss of one or more of our key employees could harm our business.

Because competition for key employees is intense, we may not be able to attract and retain the highly-skilled employees we need to support our operations and future growth.

Competition for executive officers, software developers and other key employees in our industry is intense. In particular, we compete with many other companies for executive officers, for software developers with high levels of experience in designing, developing and managing software, as well as for skilled sales and operations professionals and knowledgeable customer support professionals, and we may not be successful in attracting the professionals we need. Our research and development organization is principally located in Austin, Texas, where competition for software development and engineering personnel is intense. We may have difficulty hiring and retaining suitably skilled personnel or expanding our research and development organization. In addition, job candidates and existing employees often consider the actual and potential value of the equity awards they receive as part of their overall compensation. Thus, if the perceived value or future value of our stock declines, our ability to attract and retain highly skilled employees may be adversely affected. In addition, many of our existing employees may exercise vested options or vest in outstanding restricted stock units and sell our stock, which may make it more difficult for us to retain key employees. If we fail to attract and retain new employees, our business and future growth prospects could be harmed.

Table of Contents

Our failure to comply with laws and regulations related to the Internet and mobile usage could adversely affect our business and results of operations, increase costs and impose constraints on the way we conduct our business.

We and our customers are subject to laws and regulations applicable to doing business over the Internet and through the use of mobile devices. It is often not clear how existing laws governing issues such as property ownership, sales and other taxes apply to the Internet and mobile usage, as these laws have in some cases failed to keep pace with technological change. Laws governing the Internet could also impact our business or the business of our customers. For instance, existing and future regulations on taxing Internet use, pricing, characterizing the types and quality of services and products or restricting the exchange of information over the Internet or mobile devices could result in reduced growth of our business, a general decline in the use of the Internet by financial service institutions or their account holders, diminished viability of our solutions and could significantly restrict our customers' ability to use our solutions. Changing federal and state laws and regulations, industry standards and industry self-regulation regarding the collection, use and disclosure of certain data may have similar effects on our and our customers' businesses. Any such constraint on the growth in Internet and mobile usage could decrease its acceptance as a medium of communication and commerce or result in increased adoption of new modes of communication and commerce that may not be supported by our solutions. Any such adverse legal or regulatory developments could substantially harm our operating results and our business.

Legislation relating to consumer privacy may affect our ability to collect data that we use in providing our customers' account holder information, which, among other things, could negatively affect our ability to satisfy our customers' needs.

We collect and store personal and identifying information regarding our customer's account holders to enable certain functionality of our solutions and provide our customers with data about their account holders. The enactment of new or amended legislation or industry regulations pertaining to consumer or private sector privacy issues could have a material adverse impact on our collection, storage and sharing of such information. Legislation or industry regulations regarding consumer or private sector privacy issues could place restrictions upon the collection, sharing and use of information that is currently legally available, which could materially increase our cost of collecting some data. These types of legislation or industry regulations could also prohibit us from collecting or disseminating certain types of data, which could adversely affect our ability to meet our customers' requirements and our profitability and cash flow targets. While 47 states and the District of Columbia have enacted data breach notification laws, there is no such federal law generally applicable to our businesses. These legislative measures impose strict requirements on reporting time frames for providing notice, as well as the contents of such notices. The costs of compliance with, and other burdens imposed by, such laws and regulations may lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our solutions.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the collecting, storing and processing of personal information were to be curtailed, our solutions would be less effective, which may reduce demand for our solutions and adversely affect our business.

Any use of our virtual banking solutions by our customers in violation of regulatory requirements could damage our reputation and subject us to additional liability.

If our customers or their account holders use our virtual banking solutions in violation of regulatory requirements and applicable laws, we could suffer damage to our reputation and could

Table of Contents

become subject to claims. We rely on contractual obligations made to us by our customers that their use and their account holders' use of our solutions will comply with applicable laws. However, we do not audit our customers or their account holders to confirm compliance. We may become subject to or involved with claims for violations by our customers or their account holders of applicable laws in connection with their use of our solutions. Even if claims asserted against us do not result in liability, we may incur costs in investigating and defending against such claims. If we are found liable in connection with our customers' or their account holders' activities, we could incur liabilities and be required to redesign our solutions or otherwise expend resources to remedy any damages caused by such actions and to avoid future liability.

Any future litigation against us could be costly and time-consuming to defend.

We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our customers in connection with commercial disputes or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, overall financial condition and operating results. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance, which could reduce the trading price of our stock. We currently are not aware of any material pending or threatened litigation against us.

Lawsuits by third parties against us and our customers for alleged infringement of the third parties' proprietary rights or for other intellectual property related claims could result in significant expenses and harm our operating results.

Our industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights. Companies in our industry are often required to defend against litigation claims based on allegations of infringement or other violations of intellectual property rights. Furthermore, our customer agreements typically require us to indemnify our customers against liabilities incurred in connection with claims alleging our solutions infringe the intellectual property rights of a third party. From time to time, we have been involved in disputes related to patent and other intellectual property rights of third parties, none of which have resulted in material liabilities. We expect these types of disputes to continue to arise in the future. Our business could be adversely affected by any significant disputes between us and our customers as to the applicability or scope of our indemnification obligations to them. There can be no assurances that any existing limitations of liability provisions in our contracts would be enforceable or adequate, or would otherwise protect us from any such liabilities or damages with respect to any particular claim. If such claims are successful, or if we are required to indemnify or defend our customers from these or other claims, these matters could be disruptive to our business and management and have an adverse effect on our business, operating results and financial condition.

Furthermore, our technologies may not be able to withstand any third-party claims or rights against their use. As a result, our success depends upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. We have a very limited patent portfolio, which will likely prevent us from deterring patent infringement claims, and our competitors and others may now and in the future have significantly larger patent portfolios than we have. From time to time, we have received and may continue to receive threatening letters or notices or in the future may be the subject of claims that our solutions and underlying technology infringe or violate the intellectual property rights

Table of Contents

of others, and we may be found to be infringing upon such rights. The risk of patent litigation has been amplified by the increase in the number of non-practicing patent asserting entities, or patent trolls. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us or our customers whom we indemnify, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our solutions or require that we comply with other unfavorable terms. Even if the claims do not result in litigation or are resolved in our favor, these claims and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

The frequency of these types of claims may increase as we continue to add new customers and as a result of our becoming a public company.

If we are unable to protect our intellectual property, our business could be adversely affected.

Our success depends upon our ability to protect our intellectual property, which may require us to incur significant costs. We have developed much of our intellectual property internally, and we rely on a combination of confidentiality obligations in contracts, patents, copyrights, trademarks, service marks, trade secret laws and other contractual restrictions to establish and protect our intellectual property and other proprietary rights. In particular, we enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have business relationships in which they will have access to our confidential information. We also rely upon licenses to intellectual property from third parties. No assurance can be given that these agreements or other steps we take to protect our intellectual property or the third party intellectual property used in our solutions will be effective in controlling access to and distribution of our solutions and our confidential and proprietary information. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized uses of our intellectual property.

Despite our precautions, it may be possible for third parties to copy our solutions and use information that we regard as proprietary to create solutions and services that compete with ours. Third parties may also independently develop technologies that are substantially equivalent to our solutions. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our solutions may be unenforceable under the laws of certain jurisdictions.

In some cases, litigation may be necessary to enforce our intellectual property rights or to protect our trade secrets. Litigation could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights and exposing us to significant damages or injunctions. Our inability to protect our intellectual property against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting less-advanced or more-costly technologies into our solutions or harm our reputation. In addition, we may be required to license additional intellectual property from third parties to develop and market new solutions, and we cannot assure you that we could license that intellectual property on commercially reasonable terms or at all.

We cannot be certain that any patents will be issued with respect to our current or future patent applications.

As of December 31, 2014, we had one U.S. patent application pending and two issued U.S. patents. We do not know whether our pending patent application will result in the issuance of a patent or whether the examination process will require us to narrow the scope of our claims. To the extent

Table of Contents

that our pending patent application or any portion of such application proceeds to issuance as a patent, any such future patent may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. In addition, our existing and any future issued patents may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. The process of seeking patent protection can be lengthy and expensive. We rely on a combination of patent, copyright, trade secret, trademark and other intellectual property laws to protect our intellectual property, and much of our technology is not covered by any patent or patent application.

We use "open source" software in our solutions, which may restrict how we use or distribute our solutions, require that we release the source code of certain software subject to open source licenses or subject us to litigation or other actions that could adversely affect our business.

We currently use in our solutions, and may use in the future, software that is licensed under "open source," "free" or other similar licenses where the licensed software is made available to the general public on an "as-is" basis under the terms of a specific non-negotiable license. Some open source software licenses require that software subject to the license be made available to the public and that any modifications or derivative works based on the open source code be licensed in source code form under the same open source licenses. Although we monitor our use of open source software, we cannot assure you that all open source software is reviewed prior to use in our solutions, that our programmers have not incorporated open source software into our solutions, or that they will not do so in the future. In addition, some of our products may incorporate third-party software under commercial licenses. We cannot be certain whether such third-party software incorporates open source software without our knowledge. In the past, companies that incorporate open source software into their products have faced claims alleging noncompliance with open source license terms or infringement or misappropriation of proprietary software. Therefore, we could be subject to suits by parties claiming noncompliance with open source licensing terms or infringement or misappropriation of proprietary software. Because few courts have interpreted open source licenses, the manner in which these licenses may be interpreted and enforced is subject to some uncertainty. There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market or provide our solutions. As a result of using open source software subject to such licenses, we could be required to release our proprietary source code, pay damages, re-engineer our products, limit or discontinue sales or take other remedial action, any of which could adversely affect our business.

The market data and forecasts included in this prospectus may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, we cannot assure you that our business will grow at similar rates, or at all.

The market data and forecasts included in this prospectus, including the data and forecasts published by BauerFinancial, Celent, Forrester, Gartner, IDC, Javelin Strategy & Research, and Verizon, among others, and our internal estimates and research are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. If the forecasts of market growth or anticipated spending prove to be inaccurate, our business and growth prospects could be adversely affected. Even if the forecasted growth occurs, our business may not grow at a similar rate, or at all. Our future growth is subject to many factors, including our ability to successfully implement our business strategy, which itself is subject to many risks and uncertainties. The reports described in this prospectus speak as of their respective publication dates and the opinions expressed in such reports are subject to change. Accordingly, potential investors in our common stock are urged not to put undue reliance on such forecasts and market data.

Table of Contents

Uncertain or weakened economic conditions may adversely affect our industry, business and results of operations.

Our overall performance depends on economic conditions, which may remain challenging or uncertain for the foreseeable future. Financial developments seemingly unrelated to us or our industry may adversely affect us. Domestic and international economies have been impacted by threatened sovereign defaults and ratings downgrades, falling demand for a variety of goods and services, restricted credit, threats to major multinational companies, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty. These conditions affect the rate of technology spending and could adversely affect our customers' ability or willingness to purchase our virtual banking solutions, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions or affect renewal rates, any of which could adversely affect our operating results. We cannot predict the timing, strength or duration of the economic recovery or any subsequent economic slowdown in the U.S. or in our industry.

We may not be able to utilize a significant portion of our net operating loss carryforwards, which could adversely affect our operating results and cash flows.

As of December 31, 2014, we had approximately \$69.9 million of U.S. federal net operating loss carryforwards. Utilization of these net operating loss carryforwards depends on many factors, including our future income, which cannot be assured. Our loss carryforwards begin to expire in 2026. In addition, Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone an ownership change. An ownership change is generally defined as a greater than 50% change in equity ownership by value over a 3-year period. We have undergone one or more ownership changes as a result of prior financings and may have undergone an ownership change as a result of our initial public offering, and any such change in ownership and the corresponding annual limitation may prevent us from using our current net operating losses prior to their expiration. Future ownership changes, including as a result of this offering, or future regulatory changes could further limit our ability to utilize our net operating loss carryforwards. To the extent we are not be able to offset our future income against our net operating loss carryforwards, this would adversely affect our operating results and cash flows if we attain profitability.

Our business may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales. Any successful action by state, local or other authorities to collect additional or past sales tax could adversely harm our business.

We file sales tax returns in certain states within the U.S. as required by law and certain customer contracts for a portion of the solutions that we provide. Our sales tax liabilities with respect to sales and use taxes in various states and local jurisdictions were \$0.2 million as of December 31, 2014. From time to time, we face sales tax audits and will likely continue to do so in the future, and our liability for these taxes could exceed our estimates as state tax authorities could still assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to those authorities.

We do not collect sales or other similar taxes in other states and many of the states do not apply sales or similar taxes to certain of our solutions. State and local taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our virtual banking solutions in various jurisdictions is unclear. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities to determine how to comply with their rules and regulations. A successful assertion by one or more states, including states for which we have not accrued tax liability, requiring

Table of Contents

us to collect sales or other taxes with respect to sales of our solutions or customer support could result in substantial tax liabilities for past transactions, including interest and penalties, discourage customers from purchasing our solutions or otherwise harm our business and operating results.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.

Financial accounting standards may change or their interpretation may change. A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change becomes effective. Changes to existing rules or the re-examining of current practices may adversely affect our reported financial results or the way we conduct our business. Accounting for revenues from sales of our solutions is particularly complex, is often the subject of intense scrutiny by the Securities and Exchange Commission, or SEC, and will evolve as the Financial Accounting Standards Board, or FASB, continues to consider applicable accounting standards in this area.

We may acquire or invest in companies, or pursue business partnerships, which may divert our management's attention, result in ownership dilution to our stockholders, and we may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions or investments.

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our solutions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to approvals that are beyond our control. In addition, we have limited experience in acquiring other businesses. We may not be able to find and identify desirable acquisition targets, we may incorrectly estimate the value of an acquisition target, and we may not be successful in entering into an agreement with any particular target. Consequently, these transactions, even if undertaken and announced, may not close.

If we acquire additional businesses, we may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

our inability to integrate or benefit from acquired technologies or services;

unanticipated costs or liabilities associated with the acquisition;

incurrence of acquisition-related costs;

difficulty integrating the accounting systems, operations and personnel of the acquired business;

difficulties and additional expenses associated with supporting legacy solutions and hosting infrastructure of the acquired business;

difficulty converting the customers of the acquired business to our solutions and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company;

diversion of management's attention from other business concerns;

adverse effects to our existing business relationships with business partners and customers as a result of the acquisition;

use of resources that are needed in other parts of our business;

Table of Contents

the issuance of additional equity securities that would dilute the ownership interests of our stockholders;

the use of a substantial portion of our cash that we may need to operate our business;

incurrence of debt on terms unfavorable to us or that we are unable to repay;

incurrence of large charges or substantial liabilities;

difficulties retaining key employees of the acquired company or integrating diverse software codes or business culture; and

become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

We may not be able to secure sufficient additional financing on favorable terms, or at all, to meet our future capital needs.

We may require additional capital in the future to pursue business opportunities or acquisitions or respond to challenges and unforeseen circumstances. We may also decide to engage in equity or debt financings or enter into credit facilities for other reasons. We may not be able to secure additional debt or equity financing in a timely manner, on favorable terms, or at all. Any debt financing we obtain in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and pursue business opportunities, including potential acquisitions.

Risks Related to this Offering and Ownership of Our Common Stock

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Upon completion of this offering, we will have 36,195,544 shares of common stock outstanding, excluding shares issuable upon the exercise of our outstanding stock options, shares issuable pursuant to our outstanding restricted stock units and shares otherwise issuable pursuant to our stock plans. The shares sold in our initial public offering were, the shares issued upon the exercise of stock options subsequent to the registration statement on Form S-8 we filed with respect to our 2007 Plan, 2014 Plan and ESPP are, and the shares sold in this offering will be, immediately tradable without restriction, except for restrictions imposed by lock-up agreements entered into in connection with this offering and restrictions that apply to any shares purchased or held by our affiliates as defined in Rule 144 of the Securities Act. The remaining 21,533,758 shares, or

Table of Contents

approximately 59.5% of our outstanding shares after this offering, are currently restricted as a result of securities laws or lock-up agreements but will be able to be sold in the future as set forth below:

Number of remaining shares and percentage of total outstanding	Date available for sale into public market
2,692,087 shares, or 7.4%	Immediately after this offering.
18,841,671 shares, or 52.1%	Generally, 90 days after the date of this prospectus due to lock-up agreements between certain of the holders of these shares and the underwriters and to contractual arrangements between the other holders of these shares and us, subject to certain exceptions and also to potential extensions under certain circumstances, all of which will be subject to volume or other sale restrictions.

In addition, 6,139,383 shares that are subject to outstanding options and issuable upon vesting of restricted stock units will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act, various vesting agreements and trading windows under our insider trading policy. In addition, some of our employees, including some of our named executive officers, have entered into 10b5-1 trading plans regarding sales of shares of our common stock. If any of these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

On May 15, 2014, we registered 8,960,341 shares of our common stock that we have issued or may issue under our stock plans. These shares can be freely sold in the public market upon issuance, subject to the lock-up agreements referred to above. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock. See "Shares Eligible for Future Sale" for a more detailed description of sales that may occur in the future.

Following this offering, holders of approximately 33.6% of our common stock will be entitled to rights with respect to the registration of these shares under the Securities Act. Please see the section titled "Description of Capital Stock Registration Rights." If we register their shares of common stock following the expiration of the lock-up agreements, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

We, each of the selling stockholders and each of our directors and executive officers have agreed to lock-up agreements that restrict us, these stockholders and our directors and executive officers, subject to specified exceptions, from selling or otherwise disposing of any shares of our stock for a period of 90 days after the date of this prospectus. The underwriters may, in their sole discretion, release all or any portion of the shares from the restrictions of any lock-up agreements described above. In addition, these lock-up agreements are subject to the exceptions described in the section of this prospectus entitled "Underwriting." Also, in the future, we may issue securities in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding stock. Due to these factors, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

If securities or industry analysts publish unfavorable or misleading research about our business, or cease coverage of our company, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the securities or industry analysts who covers us downgrades our stock or publishes unfavorable or misleading research

Table of Contents

about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the market for our stock, and demand for our stock could decrease, which could cause our stock price or trading volume to decline.

We have incurred and will continue to incur significant increased expenses and administrative burdens as a public company, which could have a material adverse effect on our operations and financial results.

We face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company prior to our initial public offering in March 2014. The Sarbanes-Oxley Act, including the requirements of Section 404, as well as rules and regulations subsequently implemented by the SEC, the Public Company Accounting Oversight Board and the New York Stock Exchange, impose additional reporting and other obligations on public companies. Compliance with public company requirements have and will increase our costs and make some activities more time-consuming. Since our initial public offering, we have created new board committees and have adopted new internal controls and disclosure controls and procedures. In addition, we have and will continue to incur additional expenses associated with our SEC reporting requirements. In connection with our initial public offering, we appointed a new chief financial officer and hired several finance and accounting personnel, and such individuals have only worked for us for a limited period of time and have limited experience in managing public companies. Furthermore, if we identify any issues in complying with those requirements (for example, if our financial systems prove inadequate or we or our auditors identify deficiencies in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. It is also more expensive to maintain director and officer liability insurance as a public company. Risks associated with our status as a public company may make it more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. The additional reporting and other obligations imposed on us by these rules and regulations have and we expect will continue to increase our legal and financial compliance costs and the costs of our related legal, accounting and administrative activities. These costs require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives. Proposals submitted by stockholders at our annual meeting or other advocacy efforts by stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase our costs.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This situation could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate investigations, inquiries, administrative proceedings or legal proceedings against us and our business may be adversely affected.

Table of Contents

Insiders will continue to have substantial control over us after this offering, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us.

Upon completion of this offering, we anticipate that our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, will beneficially own, in the aggregate, approximately 59.3% of our outstanding common stock, or 57.9% if the underwriters exercise their option to purchase additional shares in full (assuming no exercise of outstanding options and no issuance of shares with respect to restricted stock units). This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with one or more large stockholders. In addition, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other stockholders. For information regarding the ownership of our outstanding stock by our executive officers and directors and their affiliates, please see the section titled "Principal and Selling Stockholders."

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply those proceeds in ways that increase the value of your investment.

Our management will have broad discretion to use the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply the net proceeds of this offering in ways that increase the value of your investment. We expect to use the net proceeds from this offering for general corporate purposes, including working capital and capital expenditures, which may in the future include investments in, or acquisitions of, complementary businesses, services or technologies. Our management might not be able to yield a significant return, if any, on any use of these net proceeds. You will not have the opportunity to influence our decisions on how the net proceeds from this offering are used. For more information, please see the section titled "Use of Proceeds."

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with GAAP. We are in the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404(a) of the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting. If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

Table of Contents

Our stock price may be volatile, and you may be unable to sell your shares at or above the offering price.

The trading price of our common stock has been and is expected to continue to be highly volatile and could be subject to wide fluctuations in response to various factors, including the risk factors described in this section of the prospectus, and other factors beyond our control. Factors affecting the trading price of our common stock include:

variations in our operating results or the operating results of similar companies;

announcements of technological innovations, new solutions or enhancements or strategic partnerships or agreements by us or by our competitors;

changes in the estimates of our operating results, our financial guidance or changes in recommendations by any securities analysts that follow our common stock;

the gain or loss of customers, particularly our larger customers;

adoption or modification of regulations, policies, procedures or programs applicable to our business and our customers' business;

marketing and advertising initiatives by us or our competitors;

threatened or actual litigation;

changes in our senior management;

recruitment or departure of key personnel;

market conditions in our industry, the industries of our customers and the economy as a whole;

the overall performance of the equity markets;

sales of shares of our common stock by existing stockholders;

volatility in our stock price, which may lead to higher stock-based compensation expenses under applicable accounting standards; and

the market's reaction to our reduced disclosure as a result of being an emerging growth company under the JOBS Act.

In addition, the stock market in general and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may harm the market price of our common stock regardless of our actual operating performance. These fluctuations may even be more pronounced in the trading market for our stock shortly following this offering. Each of these factors, among others, could adversely affect your

investment in our common stock. Some companies that have had volatile market prices for their securities have had securities class action lawsuits filed against them. If a suit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management's attention.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We have never declared nor paid cash dividends on our capital stock. We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. We currently intend to retain any future earnings to finance the operation and expansion of our business. Any payment of future dividends will be at the discretion of our board of directors, subject to compliance with certain covenants contained in our credit facility, which limit our ability to pay dividends, and will depend on our financial condition, results of operations, capital requirements, general business conditions and

Table of Contents

other factors that our board of directors may deem relevant. For more information, see the section titled "Dividend Policy." Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a profit. There is no guarantee that the price of our common stock that will prevail in the market after this offering will ever exceed the price that you pay.

As an "emerging growth company" under the JOBS Act, we are relying on permitted exemptions from certain disclosure requirements, which could make our common stock less attractive to investors.

As an "emerging growth company" under the JOBS Act, we are relying on permitted exemptions from certain disclosure requirements. In particular, we have not included all of the executive compensation related information that would be required in this prospectus if we were not an emerging growth company. We are also only providing three years of selected financial data instead of the five years of selected financial data required for companies that do not qualify for emerging growth company status. In addition, for so long as we are an emerging growth company, we will not be required to:

have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;

comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis); and

submit certain executive compensation matters to stockholder advisory votes, such as "say on pay" and "say on frequency."

Because of these exemptions and the other reduced disclosure obligations for emerging growth companies set forth elsewhere in this prospectus, our stock may appear less attractive to investors and could cause our stock price to decline.

Although we intend to rely on certain of the exemptions provided in the JOBS Act, the exact implications of the JOBS Act for us are still subject to interpretations and guidance by the SEC and other regulatory agencies. Also, as our business grows, we may no longer satisfy the conditions of an emerging growth company. We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year during which we have total annual gross revenues of \$1 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of our initial public offering; (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt; and (iv) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act. We will be deemed a large accelerated filer on the first day of the fiscal year after the market value of our common equity held by non-affiliates exceeds \$700 million, measured on June 30. If investors find our common stock less attractive as a result of our reliance on certain of the JOBS Act exemptions, there may be a less active trading market for our common stock, and our stock price may be more volatile.

In addition, section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS

Table of Contents

Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law, which apply to us, may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the stockholder becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. For more information, see the section titled "Description of Capital Stock Anti-Takeover Effects of Our Charter and Bylaws and Delaware Law." In addition, our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our certificate of incorporation and bylaws:

authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to help defend against a takeover attempt;

establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;

require that directors only be removed from office for cause and only upon a supermajority stockholder vote;

provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;

prevent stockholders from calling special meetings;

include advance notice procedures for stockholders to nominate candidates for election as directors or bring matters before an annual meeting of stockholders;

prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and

provide that certain litigation against us can only be brought in Delaware.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus, including the sections titled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," contains forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this prospectus, other than statements of historical fact or statements related to present facts or current conditions, are forward-looking. You can identify forward-looking statements by terminology such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "should," "will," or "would" or the negative of these terms or similar expressions.

There are a number of important factors that could cause our actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss in this prospectus in the section titled "Risk Factors." You should read these factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements contained in this prospectus are made subject to the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets for our solutions, including our general expectations and market position, market opportunity and market share, is based on information from various sources, surveys and forecasts, and our internal research, on assumptions that we have made, which we believe are reasonable, based on those data and other similar sources and on our knowledge of the markets for our solutions. Sources we refer to in this prospectus include BauerFinancial, Inc., Coral Gables, Florida, or BauerFinancial, Celent, Forrester Research, Inc., or Forrester, Gartner, Inc., or Gartner, International Data Corporation, or IDC, Javelin Strategy & Research and Verizon Communications, Inc., or Verizon. The reports described in this prospectus represent data, research opinion or viewpoints published, as part of a syndicated or other subscription service, by such publishers. These reports speak as of their original publication date (and not as of the date of this prospectus) and the opinions expressed in such reports are subject to change without notice. Our internal research has not been verified by any independent source, and we have not independently verified any third-party information and cannot assure you of its accuracy or completeness. We believe the market position, market opportunity, and market share information included in this prospectus is generally reliable. In addition, projections, assumptions, and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors" and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates included in this prospectus.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately \$27.6 million, based upon the public offering price of \$19.75 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders. The principal reasons for this offering are to increase our available cash resources, provide liquidity for our selling stockholders and increase our public float.

Although we do not have current specific plans for the net proceeds from this offering, we intend to use the net proceeds for working capital and other general corporate purposes, including to finance our growth, develop new or enhanced solutions and fund capital expenditures. We may also seek to expand our business through investments in or acquisitions of other businesses, solutions, or technologies. However, we do not have agreements or commitments for any investments or acquisitions at this time.

Pending the uses mentioned above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities. Our management will have broad discretion in the application of the net proceeds to us from this offering, and investors will be relying on the judgment of our management regarding the application of the proceeds.

Table of Contents**MARKET PRICE OF COMMON STOCK**

Our common stock has been listed on the New York Stock Exchange under the symbol "QTWO" since March 20, 2014. Prior to that date, there was no public trading market for our common stock. Our common stock was priced at \$13.00 per share in our initial public offering on March 19, 2014. The following table sets forth for the periods indicated the high and low intra-day sale prices per share of our common stock as reported on the New York Stock Exchange:

	High	Low
First Quarter 2014 (from March 20, 2014)	\$ 17.38	\$ 14.41
Second Quarter 2014	\$ 16.96	\$ 9.62
Third Quarter 2014	\$ 16.89	\$ 12.44
Fourth Quarter 2014	\$ 20.48	\$ 13.03
First Quarter 2015 (through February 26, 2015)	\$ 21.96	\$ 17.04

On February 26, 2015, the last reported sale price of our common stock on the New York Stock Exchange was \$21.02 per share. As of December 31, 2014, we had 61 holders of record of our common stock. The actual number of holders of common stock is greater than this number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and nominees. The number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Table of Contents

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. Any future determination to declare cash dividends on our common stock will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. We do not anticipate paying cash dividends on our common stock for the foreseeable future.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of December 31, 2014:

on an actual basis; and

on an adjusted basis to give effect to the sale of 1,500,000 shares of common stock by us in this offering at the public offering price of \$19.75 per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

This table should be read in conjunction with "Selected Consolidated Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Capital Stock" and our financial statements and the related notes thereto included elsewhere in this prospectus.

	As of December 31, 2014	
	Actuals	As Adjusted
	(in thousands except shares)	
Cash and cash equivalents	\$ 67,979	\$ 95,569
Long-term debt	\$	\$
Stockholders' Equity (Deficit):		
Preferred stock: \$0.0001 par value, 5,000,000 shares authorized and issuable and no shares outstanding, actual and as adjusted		
Common stock: \$0.0001 par value, 150,000,000 shares authorized, actual and as adjusted; 34,696,581 shares issued and 34,695,544 shares outstanding, actual and 36,196,581 shares issued and 36,195,544 shares outstanding, as adjusted	3	4
Additional paid-in capital	143,337	170,926
Treasury stock at cost	(20)	(20)
Accumulated deficit	(64,366)	(64,366)
Accumulated other comprehensive loss	(14)	(14)
Total stockholders' equity	\$ 78,940	\$ 106,530
Total capitalization	\$ 78,940	\$ 106,530

The number of shares of common stock outstanding set forth in the table above is based on 34,695,544 shares of common stock outstanding as of December 31, 2014 and excludes:

6,110,953 shares issuable upon the exercise of options outstanding as of December 31, 2014, having a weighted average exercise price of \$5.90 per share;

28,430 shares of common stock subject to restricted stock unit agreements outstanding as of December 31, 2014;

1,406,526 shares, subject to increase on an annual basis, available for future issuance under our 2014 Equity Incentive Plan; and

800,000 shares reserved for future issuance under our 2014 Employee Stock Purchase Plan.

Table of Contents**DILUTION**

As of December 31, 2014, we had a net tangible book value of \$78.9 million, or \$2.27 per share of common stock. Dilution in net tangible book value per share to new investors in this offering represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the as adjusted net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to the sale of the 1,500,000 shares of common stock offered by us in this offering at the public offering price of \$19.75 per share, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us, our as adjusted net tangible book value as of December 31, 2014 would have been \$106.3 million, or \$2.94 per share of common stock. This represents an immediate increase in net tangible book value of \$0.67 per share to existing stockholders and an immediate dilution of \$16.81 per share to new investors in our common stock. The following table illustrates this dilution on a per share basis:

Public offering price per share	\$ 19.75
Historical net tangible book value per share as of December 31, 2014	\$ 2.27
Increase in net tangible book value per share attributable to new investors	\$ 0.67
As adjusted net tangible book value per share after giving effect to this offering	\$ 2.94
Dilution per share to new investors in this offering	\$ 16.81

The following table summarizes, on an as adjusted basis as of December 31, 2014 and after giving effect to the offering, based on the public offering price of \$19.75 per share, the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
(in thousands, except per share data)					
Existing stockholders	34,697	96%	\$ 146,497	83%	\$ 4.22
New investors	1,500	4%	\$ 29,625	17%	\$ 19.75
Total	36,197	100%	\$ 176,122	100%	\$ 4.87

If all our outstanding options had been exercised, as of December 31, 2014, the as adjusted net tangible book value after this offering would have been \$142.4 million, or \$3.37 per share, causing dilution to new investors of \$16.38 per share.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

The following selected consolidated statements of operations data for the years ended December 31, 2012, 2013 and 2014, and the selected consolidated balance sheet data as of December 31, 2013 and 2014 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statements of operations data for the year ended December 31, 2011 and the balance sheet data as of December 31, 2011 and 2012 are derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements, related notes, and other financial information included elsewhere in this prospectus.

	Year Ended December 31,			
	2011	2012	2013	2014
	(in thousands, except per share data)			
Consolidated Statements of Operations Data:				
Revenues	\$ 26,982	\$ 41,101	\$ 56,872	\$ 79,129
Cost of revenues(1)(2)	14,795	25,170	36,261	46,054
Gross profit	12,187	15,931	20,611	33,075
Operating expenses:				
Sales and marketing(2)	5,589	8,962	16,726	23,069
Research and development(2)	3,428	5,317	9,029	12,086
General and administrative(2)	4,857	8,780	11,742	16,991
Unoccupied lease charges(3)			236	
Total operating expenses	13,874	23,059	37,733	52,146
Loss from operations	(1,687)	(7,128)	(17,122)	(19,071)
Total other expense, net	(76)	(228)	(499)	(492)
Loss before income taxes	(1,763)	(7,356)	(17,621)	(19,563)
Provision for income taxes	(132)	(164)	(55)	(71)
Loss from continuing operations	(1,895)	(7,520)	(17,676)	(19,634)
Loss from discontinued operations, net of tax(4)	(1,132)	(1,259)	(199)	
Net loss	\$ (3,027)	\$ (8,779)	\$ (17,875)	\$ (19,634)
Net loss per common share:				
Loss from continuing operations per common share, basic and diluted	\$ (0.17)	\$ (0.66)	\$ (1.49)	\$ (0.67)
Loss from discontinued operations per common share, basic and diluted	\$ (0.10)	\$ (0.11)	\$ (0.02)	
Net loss per common share, basic and diluted	\$ (0.27)	\$ (0.77)	\$ (1.51)	\$ (0.67)

Edgar Filing: Q2 Holdings, Inc. - Form 424B4

Weighted average common shares outstanding:

Basic and diluted	11,326	11,345	11,866	29,257
Other Financial Data:				
Adjusted EBITDA(5)	\$ (277)	\$ (4,400)	\$ (12,310)	\$ (10,418)

- (1) Includes reclassified costs of research and development personnel who performed certain implementation and customer support services as follows:

	Year Ended December 31,			
	2011	2012	2013	2014
Research and development costs reclassified into cost of revenues	\$ 434	\$ 1,390	\$ 1,572	\$ 1,412

44

Table of Contents

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

	Year Ended December 31,			
	2011	2012	2013	2014
Cost of revenues	\$ 52	\$ 187	\$ 264	\$ 623
Sales and marketing	52	123	274	774
Research and development	57	195	257	527
General and administrative	236	526	810	2,646
Total stock-based compensation expenses	\$ 397	\$ 1,031	\$ 1,605	\$ 4,570

- (3) Unoccupied lease charges include costs related to our early exit from our previous headquarters, partially offset by anticipated sublease income from that facility.
- (4) We previously had a subsidiary which we fully divested in March 2013. Loss from discontinued operations, net of tax reflects the financial results of this divested subsidiary.
- (5) We define adjusted EBITDA as net loss before depreciation, amortization, loss from discontinued operations, stock-based compensation, provision for income taxes, total other expense, net, unoccupied lease charges and loss on disposal of long-lived assets.

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

our investor and analyst presentations will 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;

Edgar Filing: Q2 Holdings, Inc. - Form 424B4

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.

Edgar Filing: Q2 Holdings, Inc. - Form 424B4

Table of Contents

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:

	Year Ended December 31,			
	2011	2012	2013	2014
(in thousands)				
Reconciliation of Net Loss to Adjusted EBITDA:				
Net loss	\$ (3,027)	\$ (8,779)	\$ (17,875)	\$ (19,634)
Depreciation and amortization	1,013	1,697	2,971	4,083
Stock-based compensation expense	397	1,031	1,605	4,570
Loss from discontinued operations, net of tax	1,132	1,259	199	
Provision for income taxes	132	164	55	71
Total other expense, net	76	228	499	492
Unoccupied lease charges			236	
Adjusted EBITDA	\$ (277)	\$ (4,400)	\$ (12,310)	\$ (10,418)

	As of December 31,			
	2011	2012	2013	2014
(in thousands)				
Consolidated Balance Sheet Data:				
Cash and cash equivalents	\$ 15,363	\$ 9,111	\$ 18,675	\$ 67,979
Total current assets	22,724	19,134	33,871	104,522
Deferred solution and other costs, total	4,328	5,394	8,482	12,219
Deferred implementation costs, total	3,716	5,133	6,374	7,374
Total current liabilities	12,562	19,082	29,191	32,887
Deferred revenues, total	13,505	17,840	27,501	36,725
Total redeemable preferred and common stock	21,730	21,730	42,052	
Total stockholders' equity (deficit)	(11,250)	(18,981)	(36,316)	78,940

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a leading provider of secure, cloud-based virtual banking solutions. We enable regional and community financial institutions to deliver a robust suite of integrated virtual banking services and engage more effectively with their retail 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-built 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 virtual banking solutions in the complex and heavily-regulated financial services industry require significant resources, personnel and expertise. We provide virtual 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 virtual banking experience across online, mobile, voice and tablet 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 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 virtual 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.

We have achieved significant growth since our inception. During each of the past three 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

Table of Contents

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' virtual banking services.

We sell our solutions primarily through our professional sales organization. Our target market of approximately 13,000 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 virtual 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 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 from which we are currently recognizing revenues. The average size of our installed customers, measured in both registered users per installed

Table of Contents

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 299, 334 and 361 installed customers as of December 31, 2012, 2013 and 2014, respectively.

Registered Users

We define a registered user as an individual related to an account holder of an installed customer 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 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 2.4 million, 3.1 million and 4.3 million registered users as of December 31, 2012, 2013 and 2014, respectively.

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 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 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 revenue retention rate was 136%, 128% and 122% for the years ended December 31, 2012, 2013 and 2014, respectively.

Churn

We utilize churn to monitor the satisfaction of our clients and evaluate the effectiveness of our business strategies. We define churn as the amount of any monthly recurring revenue losses due to 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 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 5.4% to 3.5% over the last four years, and we had annual churn of 3.6%, 3.5% and 4.8% for the years ended

Table of Contents

December 31, 2012, 2013 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

In addition to the operating measures described above, we also monitor adjusted EBITDA to evaluate growth trends, plan investments and measure the effectiveness of our sales and marketing efforts. For a discussion of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP, please refer to the section titled "Selected Consolidated Financial and Other Data."

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 and 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 vary 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.

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 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.

Table of Contents

The amount of research and development costs reclassified to cost of revenues were \$1.4 million, \$1.6 million and \$1.4 million for the years ended December 31, 2012, 2013 and 2014, respectively.

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. For the years ended December 31, 2012, 2013 and 2014, we capitalized implementations costs in the amount of \$2.6 million, \$3.2 million and \$3.8 million, respectively.

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. We expect our gross margins to decrease in the near term as we add larger customers requiring higher levels of implementation and customer support services.

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. 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. Additional expenses relate 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.

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. To date, software development costs eligible for

Table of Contents

capitalization have not been significant. Accordingly, we have not capitalized any software development costs, and we do not anticipate capitalizing any such costs in the foreseeable future.

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. Additional expenses include consulting and professional fees, insurance and travel. Our general and administrative expenses have increased as a result of our operating as a public company since our initial public offering in March 2014. 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, increased professional services expenses and costs associated with enhanced investor relations activities.

Unoccupied Lease Charges

Unoccupied lease charges include costs related to the early exit from our previous headquarters facility, partially offset by anticipated sublease income from that facility.

Total Other Expense, Net

Total other expense, net, consists primarily of interest income and expense. We earn interest income on our cash, cash equivalents and investments, and expect interest income to increase due to the increase in our cash, cash equivalents and investments as a result of our initial public offering in March 2014 and this offering. Interest expense consists primarily of the interest incurred on outstanding borrowings under our credit facility. We expect interest expense to decrease in future periods as we utilized a portion of the proceeds from our initial public offering to pay down a portion of our credit facility.

Provision for Income Taxes

As a result of our current net operating loss position, income tax expenses consist primarily of state income taxes. We incurred minimal state income tax expense for the years ended December 31, 2012, 2013 and 2014. Our net operating loss carryforwards for federal income tax purposes were \$69.9 million at December 31, 2014 and will expire at various dates beginning in 2026 if not utilized. We also held state tax credits of \$0.2 million and federal alternative minimum tax credits of \$0.1 million at December 31, 2014. The state tax credits will expire in 2027 if not utilized, and the federal alternative minimum tax credits have an indefinite carryforward period.

Table of Contents**Results of Operations***Consolidated Statements of Operations Data*

The following table sets forth our consolidated statements of operations data for each of the periods indicated:

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Revenues	\$ 41,101	\$ 56,872	\$ 79,129
Cost of revenues(1)(2)	25,170	36,261	46,054
Gross profit	15,931	20,611	33,075
Operating expenses:			
Sales and marketing(2)	8,962	16,726	23,069
Research and development(2)	5,317	9,029	12,086
General and administrative(2)	8,780	11,742	16,991
Unoccupied lease charges(3)		236	
Total operating expenses	23,059	37,733	52,146
Loss from operations	(7,128)	(17,122)	(19,071)
Total other expense, net	(228)	(499)	(492)
Loss before income taxes	(7,356)	(17,621)	(19,563)
Provision for income taxes	(164)	(55)	(71)
Loss from continuing operations	(7,520)	(17,676)	(19,634)
Loss from discontinued operations, net of tax(4)	(1,259)	(199)	
Net loss	\$ (8,779)	\$ (17,875)	\$ (19,634)

- (1) Includes reclassified costs of research and development personnel who performed certain implementation and customer support services as follows (in thousands) :

	Year Ended December 31,		
	2012	2013	2014
Research and development costs reclassified into cost of revenues	\$ 1,390	\$ 1,572	\$ 1,412

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

	Year Ended December 31,		
	2012	2013	2014
Cost of revenues	\$ 187	\$ 264	\$ 623
Sales and marketing	123	274	774
Research and development	195	257	527
General and administrative	526	810	2,646

Total stock-based compensation expenses	\$	1,031	\$	1,605	\$	4,570
---	----	-------	----	-------	----	-------

(3) Unoccupied lease charges include costs related to our early exit from our previous headquarters, partially offset by anticipated sublease income from that facility.

(4) We previously had a subsidiary which we fully divested in March 2013. Loss from discontinued operations, net of tax reflects the financial results of this divested subsidiary.

Edgar Filing: Q2 Holdings, Inc. - Form 424B4

Table of Contents

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

	Year Ended December 31,		
	2012	2013	2014
Revenues	100.0%	100.0%	100.0%
Cost of revenues(1)(2)	61.2	63.8	58.2
Gross margin	38.8	36.2	41.8
Operating expenses:			
Sales and marketing(2)	21.8	29.4	29.2
Research and development(2)	12.9	15.9	15.3
General and administrative(2)	21.4	20.6	21.5
Unoccupied lease charges(3)		0.4	
Total operating expenses	56.1	66.3	66.0
Loss from operations	(17.3)	(30.1)	(24.2)
Total other expense, net	(0.6)	(0.9)	(0.6)
Loss before income taxes	(17.9)	(31.0)	(24.8)
Provision for income taxes	(0.4)	(0.1)	(0.1)
Loss from continuing operations	(18.3)	(31.1)	(24.9)
Loss from discontinued operations, net of tax(4)	(3.1)	(0.3)	
Net loss	(21.4)%	(31.4)%	(24.9)%

(1) Includes reclassified costs of research and development personnel who performed certain implementation and customer support services as follows:

	Year Ended December 31,		
	2012	2013	2014
Research and development costs reclassified into cost of revenues	3.4%	2.8%	1.8%

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

	Year Ended December 31,		
	2012	2013	2014
Cost of revenues	0.5%	0.5%	0.8%
Sales and marketing	0.3	0.5	1.0
Research and development	0.5	0.4	0.7
General and administrative	1.3	1.4	3.3
Total stock-based compensation expenses	2.6%	2.8%	5.8%

(3) Unoccupied lease charges include costs related to our early exit from our previous headquarters, partially offset by anticipated sublease income from that facility.

(4) We previously had a subsidiary which we fully divested in March 2013. Loss from discontinued operations, net of tax reflects the financial results of this divested subsidiary.

Table of Contents**Comparison of Years Ended December 31, 2013 and 2014****Revenues**

	Year Ended December 31,					
	2013		2014		Change	
	Amount	% of Revenues	Amount	% of Revenues	(\$)	(%)
Revenues	\$ 56,872	100.0%	\$ 79,129	100.0%	\$ 22,257	39.1%

Revenues increased by \$22.3 million, or 39.1%, from \$56.9 million for the year ended December 31, 2013 to \$79.1 million for the year ended December 31, 2014. This increase was primarily attributable to an \$18.2 million increase from the growth in new registered users from a combination of strong client retention and growth from existing customers and the addition of registered users from new installed customers. The remaining \$4.1 million increase was generated from increases in the number of transactions processed using our solutions. In particular, we had 3.1 million and 4.3 million registered users as of December 31, 2013 and 2014, respectively. We had 361 installed customers at December 31, 2014 and 334 installed customers at December 31, 2013.

Cost of Revenues

	Year Ended December 31,					
	2013		2014		Change	
	Amount	% of Revenues	Amount	% of Revenues	(\$)	(%)
Cost of revenues	\$ 36,261	63.8%	\$ 46,054	58.2%	\$ 9,793	27.0%

Cost of revenues increased by \$9.8 million, or 27.0%, from \$36.3 million for the year ended December 31, 2013 to \$46.1 million for the year ended December 31, 2014. This increase was primarily attributable to a \$4.3 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. The increase in personnel costs includes a \$0.4 million increase in stock-based compensation expense allocated to cost of revenue 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 \$3.8 million increase in direct costs related to bill-pay transaction processing and other third-party intellectual property included in our solutions which was related to the increase in the number of new registered users and transactions processed on our solutions, a \$0.9 million increase in co-location facility costs and depreciation of our data center assets resulting from the increased infrastructure necessary to support our expanding customer base and a \$0.5 million increase in facilities and other overhead costs.

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 invested 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 in capacity and process improvement to provide opportunities for future expansion of our gross margin as we begin to achieve economies of scale.

Table of Contents*Operating Expenses*

	Year Ended December 31,					
	2013		2014		Change	
	Amount	% of Revenues	Amount	% of Revenues	(\$)	(%)
Sales and marketing	\$ 16,726	29.4%	\$ 23,069	29.2%	\$ 6,343	37.9%
Research and development	9,029	15.9	12,086	15.3	3,057	33.9
General and administrative	11,742	20.6	16,991	21.5	5,249	44.7
Unoccupied lease charges	236	0.4			236	N/A
Total operating expenses	\$ 37,733	66.3%	\$ 52,146	66.0%		

Sales and Marketing

Sales and marketing expenses increased by \$6.3 million, or 37.9%, from \$16.7 million for the year ended December 31, 2013 to \$23.1 million for the year ended December 31, 2014. This increase was primarily attributable to a \$5.3 million increase in personnel costs due to the growth of our sales and marketing organizations. The increase in personnel costs includes a \$0.5 million increase in stock-based compensation expense allocated to sales and marketing 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 \$0.5 million increase in travel and entertainment costs due to increased employee travel to attract new customers and efforts to support our sales and marketing initiatives, a \$0.3 million increase in facilities and other overhead costs, a \$0.2 million increase in discretionary marketing spend as a result of increased advertising to drive brand awareness and expanded marketing efforts to attract new customers and retain and grow existing customers. 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.

Research and Development

Research and development expenses increased by \$3.1 million, or 33.9%, from \$9.0 million for the year ended December 31, 2013 to \$12.1 million for the year ended December 31, 2014. 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 for continued enhancements to our solutions. The increase in personnel costs includes a \$0.3 million increase in stock-based compensation expense allocated to research and development 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 facilities and other overhead costs. 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

General and administrative expenses increased by \$5.2 million, or 44.7%, from \$11.7 million for the year ended December 31, 2013 to \$17.0 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily attributable to a \$4.0 million increase in personnel costs to support the growth of our business. The increase in personnel costs includes a \$1.8 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. The remaining