Zendesk, Inc.
Form 10-Q
August 04, 2016

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36456

ZENDESK, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	26-4411091
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1019 Market Street
San Francisco, California 94103
(Address of principal executive offices)
415.418.7506
(Registrant's Telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨(do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of July 31, 2016 there were 93,807,030 shares of the registrant's common stock outstanding.

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PART II — OTHER INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "might," "expects," "plans," "anticipates," "could," "i "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these wo other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our revenue, cost of revenue, gross profit, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain profitability;
- the sufficiency of our cash and cash equivalents, and marketable securities to meet our liquidity needs;
- our ability to attract and retain customers to use our customer service platform, live chat software, and analytics software, and to optimize the pricing for such software;
- the evolution of technology affecting our platform, services, and markets;
- our ability to innovate and provide a superior customer experience;
- our ability to successfully expand in our existing markets and into new markets;
- the attraction and retention of qualified employees and key personnel;
- worldwide economic conditions and their impact on information technology spending;
- our ability to effectively manage our growth and future expenses;
- our ability to successfully offer our live chat software as a standalone service or further integrate our live chat software or analytics software with our customer service platform;
- our ability to maintain, protect, and enhance our intellectual property;
- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations;
- our ability to securely maintain customer data;
- our ability to maintain and enhance our brand; and
- the increased expenses and administrative workload associated with being a public company.

We caution you that the foregoing list does not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
ZENDESK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and shares)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 118,036	$ 216,226
Marketable securities	106,130	29,414
Accounts receivable, net of allowance for doubtful accounts of $834 and $763 as of June 30, 2016 and December 31, 2015, respectively	28,666	26,168
Prepaid expenses and other current assets	19,645	11,423
Total current assets	272,477	283,231
Marketable securities, noncurrent	51,625	22,336
Property and equipment, net	55,734	56,540
Goodwill and intangible assets, net	55,948	57,050
Other assets	4,157	3,529
Total assets	$ 439,941	$ 422,686
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 6,481	$ 9,332
Accrued liabilities	11,962	9,742
Accrued compensation and related benefits	15,183	14,115
Deferred revenue	101,042	84,210
Total current liabilities	134,668	117,399
Deferred revenue, noncurrent	1,316	1,405
Other liabilities	11,240	10,592
Total liabilities	147,224	129,396
Commitments and contingencies (Note 7)		
Stockholders’ equity:		
Preferred stock	—	—
Common stock	937	905
Additional paid-in capital	563,600	511,183
Accumulated other comprehensive loss	(1,823)	(2,225)
Accumulated deficit	(269,345)	(215,921)
Treasury stock at cost (0.5 million shares as of June 30, 2016 and December 31, 2015)	(652)	(652)
Total stockholders’ equity	292,717	293,290
Total liabilities and stockholders’ equity	$ 439,941	$ 422,686

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	$74,200	$48,227	$142,659	$90,461
Cost of revenue (1)	22,936	16,162	44,452	30,452
Gross profit	51,264	32,065	98,207	60,009
Operating expenses (1)				
Research and development	22,134	14,227	43,731	27,485
Sales and marketing	39,350	27,242	75,522	50,645
General and administrative	16,076	11,536	31,937	21,663
Total operating expenses	77,560	53,005	151,190	99,793
Operating loss	(26,296)	(20,940)	(52,983)	(39,784)
Other income (expense), net	134	(343)	64	(574)
Loss before provision for income taxes	(26,162)	(21,283)	(52,919)	(40,358)
Provision for income taxes	92	199	506	292
Net loss	$(26,254)	$(21,482)	$(53,425)	$(40,650)
Net loss per share, basic and diluted	$(0.28)	$(0.25)	$(0.58)	$(0.50)
Weighted-average shares used to compute net loss per share, basic and diluted	92,174	86,390	91,351	81,390

(1) Includes share-based compensation expense as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	$1,802	$1,114	$3,435	$2,004
Research and development	6,749	4,446	13,376	8,510
Sales and marketing	5,684	3,937	11,123	6,369
General and administrative	4,410	3,890	8,407	6,731

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(26,254)	$(21,482)	$(53,425)	$(40,650)
Other comprehensive loss, before tax:				
Net change in unrealized (loss) gain on available-for-sale investments	(14)	(8)	116	32
Foreign currency translation gain (loss)	64	203	797	(238)
Net change in unrealized loss on derivative instruments	(2,886)	—	(277)	—
Other comprehensive loss, before tax	(2,836)	195	636	(206)
Tax effect	(234)	—	(234)	—
Other comprehensive loss, net of tax	(3,070)	195	402	(206)
Comprehensive loss	$(29,324)	$(21,287)	$(53,023)	$(40,856)

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net loss	$(53,425)	$(40,650)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,147	8,804
Share-based compensation	36,341	23,614
Other	599	318
Excess tax benefit from share-based award activity	—	(95)
Changes in operating assets and liabilities:		
Accounts receivable	(2,427)	(3,390)
Prepaid expenses and other current assets	(7,860)	(3,261)
Other assets and liabilities	(380)	(1,365)
Accounts payable	(579)	(1,063)
Accrued liabilities	1,803	1,270
Accrued compensation and related benefits	1,098	(2,259)
Deferred revenue	16,243	13,304
Net cash provided by (used in) operating activities	4,560	(4,773)
Cash flows from investing activities		
Purchases of property and equipment	(8,410)	(7,406)
Internal-use software development costs	(2,773)	(2,383)
Purchases of marketable securities	(136,171)	(35,847)
Proceeds from maturities of marketable securities	16,476	18,020
Proceeds from sale of marketable securities	13,631	15,317
Cash paid for the acquisition of Zopim, net of cash acquired	—	(548)
Net cash used in investing activities	(117,247)	(12,847)
Cash flows from financing activities		
Proceeds from follow-on public offering, net of issuance costs	—	190,110
Proceeds from exercise of employee stock options	9,387	4,976
Taxes paid related to net share settlement of equity awards	(345)	(203)
Proceeds from employee stock purchase plan	5,672	4,948
Excess tax benefit from share-based award activity	—	95
Principal payments on debt	(323)	(6,952)
Principal payments on capital lease obligations	—	(10)
Net cash provided by financing activities	14,391	192,964
Effect of exchange rate changes on cash and cash equivalents	106	60
Net (decrease) increase in cash and cash equivalents	(98,190)	175,404
Cash and cash equivalents at the beginning of period	216,226	80,265
Cash and cash equivalents at the end of period	$118,036	$255,669
Supplemental cash flow data:		
Cash paid for interest and income taxes	$437	$617
Non-cash investing and financing activities:		
Balance of property and equipment in accounts payable and accrued expenses	$1,552	$962

Share-based compensation capitalized in internal-use software development costs	$1,075	$1,262
Vesting of early exercised stock options	$374	$576
Property and equipment acquired through tenant improvement allowances	$—	$174

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Overview and Basis of Presentation

Company and Background

Zendesk was founded in Denmark in 2007 and reincorporated in Delaware in April 2009.

Our mission is to help organizations and their customers build better relationships. We are a software development company that provides a SaaS customer service platform that enables our customers to provide tailored support through multiple channels, establish effective self-service support resources, proactively serve customers through customer engagement capabilities, integrate with other applications, and consolidate and analyze data from customer interactions. We also provide SaaS live chat software that can be utilized independently to facilitate proactive communications between organizations and their customers or integrated easily into our platform.

In October 2015, we completed the acquisition of We Are Cloud SAS, or WAC, the maker of BIME Analytics software. With the acquisition, we added technology that we anticipate will allow our customers to understand the ever-increasing diversity of data about their end customers. Over time, we expect this analytics software to become a core technology within our customer service platform, enabling us to further integrate data analytics capabilities across our products.

References to Zendesk, the “Company”, “our”, or “we” in these notes refer to Zendesk, Inc. and its subsidiaries on a consolidated basis.

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 26, 2016. There have been no changes to our significant accounting policies described in the Annual Report on Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes.

The consolidated balance sheet as of December 31, 2015 included herein was derived from the audited financial statements as of that date. The unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, our comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2016.

Follow-On Public Offering

In March 2015, we completed a follow-on public offering, in which we issued 8.8 million shares of our common stock at a public offering price of $22.75 per share. We received net proceeds of $190.1 million after deducting underwriting discounts and commissions of $8.7 million and other offering expenses of $0.9 million.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reported periods.

Significant items subject to such estimates and assumptions include the fair value of share-based awards, acquired intangible assets and goodwill, unrecognized tax benefits, the useful lives of acquired intangible assets and property and equipment, the capitalization and estimated useful life of capitalized internal-use software, and financial forecasts used in currency hedging.

These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Concentrations of Risk

As of June 30, 2016, no customers represented 10% or greater of our total accounts receivable balance. There were no customers that individually exceeded 10% of our revenue during the three and six months ended June 30, 2016 or 2015.

Recently Issued and Adopted Accounting Pronouncements

In May 2014, the FASB issued new revenue guidance that provides principles for recognizing revenue to which an entity expects to be entitled for the transfer of promised goods or services to customers. In August 2015, the FASB deferred the effective date of adoption by one year. As currently issued and amended, the new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. The amendment may be applied retrospectively to each prior period presented, or with the cumulative effect recognized as of the date of initial adoption. We have not yet selected a transition method and continue to evaluate the effect of the standard on our consolidated financial statements, including revenue and commissions.

In February 2016, the FASB issued ASU 2016-2 regarding ASC Topic 842 "Leases." This new standard requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets and eliminates certain real estate-specific provisions. The new guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-9 regarding Topic 718 "Compensation - Stock Compensation." This amendment changes certain aspects of accounting for share-based compensation to employees, including the recognition of income tax effects of awards when the awards vest or are settled, requirements on net share settlement to cover tax withholding, and accounting for forfeitures. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. We do not expect the adoption of this standard to have a significant impact on our consolidated financial statements.

Note 2. Business Combination

On October 13, 2015, we completed the acquisition of WAC, the maker of BIME Analytics software. We acquired 100 percent of the outstanding shares of WAC in exchange for purchase consideration of $46.4 million in cash, including working capital adjustments. As partial security for standard indemnification obligations, $7.0 million of the consideration will be held in escrow for a period of up to 18 months, with a portion to be released 12 months following the closing of the acquisition. We incurred transaction costs of $1.0 million in connection with the acquisition. The transaction costs were expensed as incurred and recognized within general and administrative expenses.

The fair value of assets acquired and liabilities assumed was based on a preliminary valuation and purchase price, and our estimates and assumptions are subject to change within the measurement period. The primary areas that remain preliminary relate to the fair values of certain tangible assets and liabilities acquired and residual goodwill. The total purchase price was allocated to assets acquired and liabilities assumed as set forth below (in thousands). During the six months ended June 30, 2016, we made adjustments to the preliminary purchase price allocation related to certain tangible assets and liabilities acquired, resulting in an increase to goodwill of $0.2 million. The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to expected synergies, including cost savings from integrating the analytics technology with our customer service platform and the opportunity to sell the analytics software alongside our existing products. Goodwill is not expected to be deductible for income tax purposes. Goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present.

Net tangible assets acquired	$2,140
Net deferred tax liability recognized	(1,979)
Identifiable intangible assets:	
Developed technology	8,800
Customer relationships	500
Goodwill	36,896
Total purchase price	$46,357

The developed technology and customer relationship intangible assets were each assigned useful lives of 4.5 years.
In connection with the acquisition, we entered into retention arrangements with certain employees of WAC, pursuant to which we issued RSUs for approximately 0.5 million shares of our common stock, most of which vest in three annual installments from the date of acquisition. The expense related to the RSUs is accounted for as share-based compensation expense over the required service periods and was not included in the purchase consideration.
The results of operations of WAC have been included in our consolidated financial statements from the date of the acquisition.

Note 3. Financial Instruments

Investments

The following tables present information about our cash equivalents and marketable securities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurement at June 30, 2016		
	Level 1	Level 2	Total
Description			
Corporate bonds	$—	$88,441	$88,441
Commercial paper	—	36,732	36,732
Agency securities	—	20,397	20,397
Asset-backed securities	—	19,032	19,032
U.S. treasury securities	—	14,748	14,748
Money market funds	$14,025	—	14,025
Total	$14,025	$179,350	$193,375
Included in cash and cash equivalents			$35,620
Included in marketable securities			$157,755

	Fair Value Measurement at December 31, 2015		
	Level 1	Level 2	Total
Description			
Corporate bonds	$—	$31,761	$31,761
Money market funds	21,338	—	21,338
Asset-backed securities	—	7,998	7,998
Commercial paper	—	5,992	5,992
U.S. treasury securities	—	4,001	4,001
Agency securities	—	1,998	1,998
Total	$21,338	$51,750	$73,088
Included in cash and cash equivalents			$21,338
Included in marketable securities			$51,750

As of June 30, 2016 and December 31, 2015, there were no securities within Level 3 of the fair value hierarchy. There were no transfers between fair value measurement levels during the three and six months ended June 30, 2016. Gross unrealized gains and losses for cash equivalents and marketable securities as of June 30, 2016 and December 31, 2015 were not material. As of June 30, 2016 and December 31, 2015, there were no securities that were in an unrealized loss position for more than 12 months.
The following table classifies our marketable securities by contractual maturity as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Due in one year or less	$106,130	$ 29,414
Due after one year	51,625	22,336
Total	$157,755	$ 51,750

For certain other financial instruments, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.
Derivative Instruments and Hedging
Our foreign currency exposures typically arise from foreign operations and sales in foreign currencies for subscriptions to our customer service platform. In September 2015, we implemented a hedging program to mitigate the impact of foreign currency fluctuations on our future cash flows and earnings. We enter into foreign currency forward contracts with certain financial institutions and designate those hedges as cash flow hedges. Our foreign currency forward contracts generally have maturities ranging from 3 to 18 months. As of June 30, 2016, the balance of accumulated other comprehensive loss included an unrealized loss of $1.0 million related to the effective portion of changes in the fair value of foreign currency forward contracts designated as cash flow hedges. We expect to reclassify $0.6 million from accumulated other comprehensive loss into earnings over the next 12 months associated with our cash flow hedges.
The following tables present information about derivative instruments on our consolidated balance sheets as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	$ 963	Accrued liabilities	$1,624
Foreign currency forward contracts	Other assets	34	Other liabilities	505
Total		$ 997		$2,129

	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	$ 408	Accrued liabilities	$1,081
Total		$ 408		$1,081

Our foreign currency forward contracts had a total notional value of $93.3 million and $60.8 million as of June 30, 2016 and December 31, 2015, respectively. We have a master netting agreement with certain counterparties, which permits net settlement of multiple, separate derivative contracts with a single payment. We have elected to present our derivative instruments on a gross basis in our consolidated financial statements. We may also be required to exchange cash collateral with certain of our counterparties on a regular basis. We have not exchanged cash collateral with any counterparties as of June 30, 2016 and December 31, 2015, respectively.

The following table presents information about our derivative instruments on the statement of operations for the three and six months ended June 30, 2016 (in thousands):

Hedging Instrument	Location of Gain (Loss) Reclassified into Earnings	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
		Loss Recognized in AOCI	Gain Reclassified from AOCI into Earnings	Loss Recognized in AOCI	Loss Reclassified from AOCI into Earnings
Foreign currency forward contracts	Revenue, cost of revenue, operating expenses	$(2,772)	$ 114	$(425)	$ (148)
Total		$(2,772)	$ 114	$(425)	$ (148)

There were no gains or losses on derivative instruments for the three and six months ended June 30, 2015.
All derivatives have been designated as hedging instruments. Amounts recognized in earnings related to excluded time value and hedge ineffectiveness for the three and six months ended June 30, 2016 were not material.

Note 4. Property and Equipment

Property and equipment, net consists of the following (in thousands):

	June 30, 2016	December 31, 2015
Hosting equipment	$30,763	$26,920
Capitalized internal-use software	24,391	22,418
Leasehold improvements	21,123	19,577
Computer equipment and software	9,529	7,682
Furniture and fixtures	6,249	5,739
Construction in progress	4,358	4,157
Total	96,413	86,493
Less: accumulated depreciation and amortization	(40,679)	(29,953)
Property and equipment, net	$55,734	$56,540

Depreciation expense was $3.9 million and $2.6 million for the three months ended June 30, 2016 and 2015, respectively, and $7.6 million and $4.9 million for the six months ended June 30, 2016 and 2015, respectively.

Amortization expense of capitalized internal-use software totaled $1.8 million and $1.5 million for the three months ended June 30, 2016 and 2015, respectively, and $3.5 million and $3.0 million for the six months ended June 30, 2016 and 2015, respectively. The carrying value of capitalized internal-use software at June 30, 2016 and December 31, 2015 was $14.4 million and $14.1 million, respectively, including $3.0 million and $1.5 million in construction in progress, respectively.

Note 5. Goodwill and Acquired Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2016 are as follows (in thousands):

Balance as of December 31, 2015	$45,346
Goodwill adjustments	166
Foreign currency translation adjustments	481
Balance as of June 30, 2016	$45,993

Acquired intangible assets subject to amortization as of June 30, 2016 and December 31, 2015 consist of the following (in thousands).

	As of June 30, 2016				
	Cost	Accumulated Amortization	Foreign Currency Translation Adjustments	Net	Remaining Useful Life
					(In years)
Developed technology	$14,000	$ (4,849)	$ (136)	$9,015	3.3
Customer relationships	1,800	(824)	(36)	940	2.6
	$15,800	$ (5,673)	$ (172)	$9,955	

	As of December 31, 2015				
	Cost	Accumulated Amortization	Foreign Currency Translation Adjustments	Net	Remaining Useful Life
					(In years)
Developed technology	$14,000	$ (3,133)	$ (279)	$10,587	3.7
Customer relationships	1,800	(606)	(78)	1,117	3.1
	$15,800	$ (3,739)	$ (357)	$11,704	

Amortization expense of purchased intangible assets for the three months ended June 30, 2016 and 2015 was $1.0 million and $0.4 million, respectively and $1.9 million and $1.0 million for the six months ended June 30, 2016 and 2015, respectively.

Estimated future amortization expense as of June 30, 2016 is as follows (in thousands):

Remainder of 2016	$1,889
2017	3,357
2018	2,131
2019	2,066
2020	512
	$9,955

Note 6. Credit Facility

Until its termination in June 2015, we had a credit facility with Silicon Valley Bank consisting of a $20.0 million revolving line of credit and a $10.0 million equipment line of credit. The revolving line of credit bore interest at the prime rate plus 2.0% per annum prior to our IPO in May 2014 and was reduced to the prime rate upon the consummation of our IPO. Borrowings on the equipment line of credit bore interest of 2.5% per annum. In June 2014, we repaid all outstanding principal and accrued interest under the revolving line of credit. In June 2015, we repaid all outstanding principal and interest under the equipment line of credit and terminated the Silicon Valley Bank credit facility.

Note 7. Commitments and Contingencies

Leases

We lease office space under noncancelable operating leases with various expiration dates. Certain of the office space lease agreements contain rent holidays or rent escalation provisions. Rent holiday and rent escalation provisions are considered in determining the straight-line expense to be recorded over the lease term. The lease term begins on the date of initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. Rent expense was $2.5 million and $1.8 million for the three months ended June 30, 2016 and 2015 and $4.7 million and $3.4 million for the six months ended June 30, 2016 and 2015, respectively.

In June 2016, we entered into an operating lease agreement for approximately 18,000 square feet of additional office space in San Francisco, CA. The lease began on July 11, 2016 and will expire on January 31, 2021. The total anticipated amount of rent to be paid over the initial term of the lease is approximately $4.6 million. In addition to monthly rent obligations, we are responsible for certain operating costs and taxes associated with the leased premises.

We leased computer equipment from various parties under capital lease agreements that expired in March 2015.

Litigation and Loss Contingencies

We accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. From time to time, we may become a party to litigation and subject to claims incident to the ordinary course of business, including intellectual property claims, labor and employment claims, and threatened claims, breach of contract claims, tax, and other matters. We currently have no material pending litigation.

We are not currently aware of any litigation matters or loss contingencies that would be expected to have a material adverse effect on our business, consolidated financial position, results of operations, comprehensive loss, or cash flows.

Indemnifications

In the ordinary course of business, we enter into contractual arrangements under which we agree to provide indemnification of varying scope and terms to customers, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements, intellectual property infringement claims made by third parties, and other liabilities relating to or arising from our customer service platform, live chat software, analytics software, or our acts or omissions. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, our obligations under these agreements may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments. In addition, we have indemnification agreements with our directors and executive officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The terms of such obligations may vary. To date, we have not incurred any material costs, and we have not accrued any liabilities in the accompanying condensed consolidated financial statements, as a result of these obligations.

Certain of our product offerings include service-level agreements warranting defined levels of uptime reliability and performance and permitting those customers to receive credits for future services in the event that we fail to meet those levels. To date, we have not accrued for any significant liabilities in the accompanying consolidated financial statements as a result of these service-level agreements.

Note 8. Common Stock and Stockholders' Equity

Common Stock

As of June 30, 2016 and December 31, 2015, there were 400 million shares authorized for issuance with a par value of $0.01 per share. There were 93.9 million and 90.9 million shares of common stock issued and 93.4 million and 90.3 million shares outstanding as of June 30, 2016 and December 31, 2015, respectively. Included within the number of shares issued and outstanding were 0.2 million and 0.3 million shares of common stock subject to repurchase, as of June 30, 2016 and December 31, 2015, respectively.

Preferred Stock

As of June 30, 2016 and December 31, 2015, 10.0 million shares of preferred stock were authorized for issuance with a par value of $0.01 per share and no shares of preferred stock were issued or outstanding.

Employee Equity Plans

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan, or ESPP, eligible employees are granted options to purchase shares of our common stock through payroll deductions. The ESPP provides for eighteen-month offering periods, which include three six-month purchase periods. At the end of each purchase period, employees are able to purchase shares at 85% of the lower of the fair market value of our common stock at the beginning of an offering period or the fair market value of our common stock at the end of the purchase period. For the three and six months ended June 30, 2016, 0.3 million shares of common stock were purchased under the ESPP. Pursuant to the terms of the ESPP, the number of shares reserved under the ESPP increased by 0.9 million shares on January 1, 2016. As of June 30, 2016, 3.5 million shares of common stock were available for issuance under the ESPP.

Stock Option and Incentive Plans

Our board of directors adopted the 2009 Stock Option and Grant Plan, or the 2009 Plan, in July 2009. The 2009 Plan was terminated in connection with our IPO in May 2014, and accordingly, no shares are available for issuance under this plan. The 2009 Plan continues to govern outstanding awards granted thereunder.

Our 2014 Stock Option and Incentive Plan, or the 2014 Plan, serves as the successor to our 2009 Plan. Pursuant to the terms of the 2014 Plan, the number of shares reserved for issuance under the 2014 Plan increased by 4.5 million shares on January 1, 2016. As of June 30, 2016, we had 5.9 million shares of common stock available for future grants under the 2014 Plan.

On May 6, 2016, the compensation committee of our board of directors granted equity awards representing 1.2 million shares. These awards were granted outside of the 2014 Plan and are intended to qualify as "employment inducement awards" within the meaning of Section 303A.08 of the New York Stock Exchange Listed Manual and accordingly do not require approval from our stockholders.

The following table summarizes our stock option and RSU award activities for the six months ended June 30, 2016 (in thousands, except per share information):

		Options Outstanding				RSUs Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Outstanding RSUs	Weighted Average Grant Date Fair Value
				(In years)			
Outstanding — January 1, 2016	4,323	10,778	$ 11.94	7.96	$ 156,262	6,417	$ 19.54
Increase in authorized shares	5,716						
Stock options granted	(1,158)	1,158	22.97				
RSUs granted	(3,388)					3,388	19.51
Stock options exercised		(1,339)	7.01				
RSUs vested						(1,472)	17.91
Stock options forfeited or canceled	148	(148)	18.74				
RSUs forfeited or cancelled	281					(281)	20.37
Outstanding — June 30, 2016	5,922	10,449	$ 13.70	7.84	$ 132,494	8,052	$ 19.80

Aggregate intrinsic value for options outstanding represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Our closing stock price as reported on the New York Stock Exchange as of June 30, 2016 was $26.38.

As of June 30, 2016, we had a total of $203.0 million in future share-based compensation expense related to all equity awards, net of estimated forfeitures, to be recognized over a weighted average period of 3.0 years.

Early Exercise of Stock Options and Purchase of Unvested Stock Awards

Certain of our stock options permit early exercise. Common stock purchased pursuant to an early exercise of stock options or unvested stock awards is not deemed to be outstanding for financial reporting purposes until those shares vest. Therefore, cash received in exchange for unvested shares is recorded as a liability and is transferred into common stock and additional paid-in capital as the shares vest. Upon termination of service, we may, at our discretion, repurchase unvested shares acquired through early exercise of stock options or purchase of unvested stock awards at a price equal to the price per share paid upon the exercise of such options or the purchase of such unvested stock awards. As of June 30, 2016 and December 31, 2015, there were 0.2 million and 0.3 million shares, respectively, outstanding as a result of the early exercise of stock options and purchase of unvested stock awards by our employees and directors that were classified as accrued liabilities for an aggregated amount of $0.7 million and