

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2020
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 **001-36350**

Q2 Holdings, Inc.

Exact Name of Registrant as Specified in its Charter

Delaware

State or Other Jurisdiction of
Incorporation or Organization

**13785 Research Blvd., Suite 150
Austin, Texas**

Address of Principal Executive Offices

20-2706637

I.R.S. Employer Identification No.

78750

Zip Code

(512) 275-0072

Registrant's Telephone Number, Including Area Code

Not Applicable

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value	QTWO	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 53,883,169 shares of Common Stock, \$0.0001 par value per share as of October 31, 2020.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 365,201	\$ 100,094
Restricted cash	3,470	3,468
Investments	30,908	32,325
Accounts receivable, net	42,125	22,442
Contract assets, current portion, net	1,111	872
Prepaid expenses and other current assets	9,002	6,354
Deferred solution and other costs, current portion	18,548	15,609
Deferred implementation costs, current portion	10,228	5,171
Total current assets	480,593	186,335
Property and equipment, net	51,590	39,252
Right of use assets	31,067	35,388
Deferred solution and other costs, net of current portion	34,756	29,220
Deferred implementation costs, net of current portion	16,909	15,848
Intangible assets, net	194,340	223,861
Goodwill	462,274	462,023
Contract assets, net of current portion and allowance	19,156	15,189
Other long-term assets	2,826	2,318
Total assets	\$ 1,293,511	\$ 1,009,434
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 15,414	\$ 10,967
Accrued liabilities	21,151	16,341
Accrued compensation	22,230	38,668
Deferred revenues, current portion	77,871	57,850
Lease liabilities, current portion	8,389	9,140
Total current liabilities	145,055	132,966
Convertible notes, net of current portion	441,547	424,784
Deferred revenues, net of current portion	32,052	32,954
Lease liabilities, net of current portion	31,836	36,079
Other long-term liabilities	5,763	3,239
Total liabilities	656,253	630,022
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: \$0.0001 par value; 5,000 shares authorized; no shares issued or outstanding as of September 30, 2020 and December 31, 2019	—	—
Common stock: \$0.0001 par value; 150,000 shares authorized; 53,872 issued and outstanding as of September 30, 2020 and 48,386 shares issued and outstanding as of December 31, 2019	5	5
Additional paid-in capital	980,657	622,692
Accumulated other comprehensive income (loss)	(38)	14
Accumulated deficit	(343,366)	(243,299)
Total stockholders' equity	637,258	379,412
Total liabilities and stockholders' equity	\$ 1,293,511	\$ 1,009,434

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 103,804	\$ 79,702	\$ 293,765	\$ 228,644
Cost of revenues ⁽¹⁾	57,366	40,447	163,676	117,683
Gross profit	46,438	39,255	130,089	110,961
Operating expenses:				
Sales and marketing ⁽¹⁾	18,403	15,700	54,597	47,371
Research and development ⁽¹⁾	23,568	19,617	72,168	56,392
General and administrative ⁽¹⁾	17,563	13,418	53,876	41,357
Acquisition related costs	818	2,758	(22)	7,453
Amortization of acquired intangibles	4,465	912	13,447	3,032
Partnership termination charges	—	—	13,244	—
Unoccupied lease charges	1,468	244	2,136	244
Total operating expenses	66,285	52,649	209,446	155,849
Loss from operations	(19,847)	(13,394)	(79,357)	(44,888)
Other income (expense):				
Interest and other income	315	1,315	1,036	2,978
Interest and other expense	(7,072)	(6,521)	(20,857)	(13,608)
Total other income (expense), net	(6,757)	(5,206)	(19,821)	(10,630)
Loss before income taxes	(26,604)	(18,600)	(99,178)	(55,518)
Benefit from (provision for) income taxes	(116)	31	(621)	307
Net loss	\$ (26,720)	\$ (18,569)	\$ (99,799)	\$ (55,211)
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale investments	(52)	37	(66)	247
Foreign currency translation adjustment	66	(59)	14	(68)
Comprehensive loss	\$ (26,706)	\$ (18,591)	\$ (99,851)	\$ (55,032)
Net loss per common share, basic and diluted	\$ (0.50)	\$ (0.39)	\$ (1.95)	\$ (1.21)
Weighted average common shares outstanding:				
Basic and diluted	53,574	47,782	51,141	45,519

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	\$ 2,110	\$ 1,478	\$ 7,422	\$ 4,454
Sales and marketing	2,209	2,060	6,353	5,462
Research and development	2,901	2,598	9,780	7,083
General and administrative	4,376	3,934	13,360	11,536
Total stock-based compensation expense	\$ 11,596	\$ 10,070	\$ 36,915	\$ 28,535

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

Q2 HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total stockholders' equity, beginning balances	\$ 647,492	\$ 385,862	\$ 379,412	\$ 158,900
Common stock and additional paid-in capital:				
Beginning balances	964,190	594,762	622,697	331,359
Stock-based compensation expense	12,011	10,336	38,076	29,376
Exercise of stock options	4,388	4,214	9,196	13,102
Shares acquired to settle the exercise of stock options	(31)	(113)	(628)	(580)
Proceeds from issuance of common stock, net of issuance costs	104	103	311,321	195,290
Equity component of convertible senior notes, less issuance costs	—	30	—	81,550
Purchase of capped call transactions	—	—	—	(40,765)
Ending balances	980,662	609,332	980,662	609,332
Accumulated deficit:				
Beginning balances	(316,646)	(209,064)	(243,299)	(172,422)
Cumulative effect of the adoption of new accounting standard	—	—	(268)	—
Net loss	(26,720)	(18,569)	(99,799)	(55,211)
Ending balances	(343,366)	(227,633)	(343,366)	(227,633)
Accumulated other comprehensive income (loss):				
Beginning balances	(52)	164	14	(37)
Other comprehensive income (loss)	14	(22)	(52)	179
Ending balances	(38)	142	(38)	142
Total stockholders' equity, ending balances	\$ 637,258	\$ 381,841	\$ 637,258	\$ 381,841

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

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (99,799)	\$ (55,211)
Adjustments to reconcile net loss to net cash from operating activities:		
Amortization of deferred implementation, solution and other costs	13,947	9,670
Depreciation and amortization	38,975	17,728
Amortization of debt issuance costs	1,427	1,004
Amortization of debt discount	15,381	10,150
Amortization of premiums on investments	114	124
Stock-based compensation expense	38,076	29,376
Realized gain on sale of marketable securities	(14)	—
Deferred income taxes	313	(341)
Allowance for credit losses	326	—
Allowance for sales credits	(20)	141
Loss on disposal of long-lived assets	94	266
Unoccupied lease charges	2,136	244
Changes in operating assets and liabilities:		
Accounts receivable, net	(20,263)	(4,822)
Prepaid expenses and other current assets	(2,644)	(1,922)
Deferred solution and other costs	(14,611)	(16,412)
Deferred implementation costs	(13,922)	(10,428)
Contract assets, net	(4,205)	(3,937)
Other long-term assets	3,395	4,357
Accounts payable	(69)	(72)
Accrued liabilities	(5,366)	8,874
Deferred revenues	19,129	11,844
Deferred rent and other long-term liabilities	5,621	(1,961)
Net cash used in operating activities	(21,979)	(1,328)
Cash flows from investing activities:		
Purchases of investments	(23,619)	(27,330)
Maturities of investments	24,871	60,735
Purchases of property and equipment	(16,538)	(12,490)
Capitalized software development costs	(653)	—
Purchases of intangible assets	—	(288)
Net cash provided by (used in) investing activities	(15,939)	20,627
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	311,321	195,289
Proceeds from issuance of convertible notes, net of issuance costs	—	307,016
Purchases of capped call transactions	—	(40,765)
Proceeds from exercise of stock options to purchase common stock	8,568	12,313
Payment of contingent consideration	(16,862)	—
Net cash provided by financing activities	303,027	473,853
Net increase in cash, cash equivalents, and restricted cash	265,109	493,152
Cash, cash equivalents, and restricted cash, beginning of period	103,562	110,156
Cash, cash equivalents, and restricted cash, end of period	\$ 368,671	\$ 603,308
Supplemental disclosures of cash flow information:		
Cash paid for taxes, net of refund	\$ 381	\$ 389
Cash paid for interest	\$ 2,910	\$ 1,726
Supplemental disclosure of non-cash investing and financing activities:		
Shares acquired to settle the exercise of stock options	\$ (628)	\$ (580)
Data center assets acquired under deferred payment arrangements or financing arrangements	\$ 1,696	\$ 2,040

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

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

1. Organization and Description of Business

Q2 Holdings, Inc. and its wholly-owned subsidiaries, collectively the Company, is a leading provider of secure, cloud-based digital solutions that transform the ways in which traditional and emerging financial services providers engage with account holders and end users, or End Users. The Company sells its solutions to financial institutions, alternative finance and leasing companies, and financial technology companies. The Company's solutions enable customers to deliver robust suites of digital banking, lending, leasing, and banking as a service, or BaaS, services that make it possible for account holders and End Users to transact and engage anytime, anywhere and on any device. The Company delivers its solutions to the substantial majority of its customers using a software-as-a-service, or SaaS, model under which its customers pay subscription fees for the use of the Company's solutions. The Company was incorporated in Delaware in March 2005 and is a holding company that owns 100% of the outstanding capital stock of Q2 Software, Inc. The Company's headquarters are located in Austin, Texas.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

In the Company's opinion, the accompanying interim unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation. Certain information and disclosures normally included in the notes to the annual consolidated financial statements prepared in accordance with GAAP have been omitted from these interim unaudited condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2019, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on February 21, 2020. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any other period.

Effective January 1, 2020, the Company adopted the requirements of Accounting Standards Update ("ASU") No. 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," and ASU No. 2016-13 "Financial Instruments - Credit Losses (Topic 326)." All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards.

Use of Estimates

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

Cash and Cash Equivalents

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

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

Restricted Cash

Restricted cash consists of deposits held as collateral for the Company's secured letters of credit or bank guarantees issued in place of the security deposit for the Company's corporate headquarters and various other leases.

Investments

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, investments and accounts receivable. The Company's cash and cash equivalents, restricted cash and investments are placed with high credit quality financial institutions and issuers, and at times may exceed federally-insured limits. The Company has not experienced any loss relating to cash and cash equivalents or restricted cash in these accounts. The Company provides credit, in the normal course of business, to a number of its customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. No individual customer accounted for 10% or more of revenues for each of the three and nine months ended September 30, 2020 and 2019. A single customer accounted for 14% of accounts receivable, net, as of September 30, 2020, and no individual customer accounted for 10% or more of accounts receivable, net, as of December 31, 2019.

Contract Balances

The timing of revenue recognition, billings and cash collections can result in billed accounts receivable, unbilled receivables, or contract assets, and deferred revenues, or contract liabilities. Billings scheduled to occur after the performance obligation has been satisfied and revenue recognition has occurred result in contract assets. Contract assets that are expected to be billed during the succeeding twelve-month period are recorded in contract assets, current portion, and the remaining portion is recorded in contract assets, net of current portion on the accompanying condensed consolidated balance sheets at the end of each reporting period. A contract liability results when the Company receives prepayments or deposits from customers in advance for implementation, maintenance and other services, as well as initial subscription fees. Customer prepayments are generally applied against invoices issued to customers when services are performed and billed. The Company recognizes contract liabilities as revenues when the services are performed, and the corresponding revenue recognition criteria are met. Contract liabilities that are expected to be recognized as revenues during the succeeding twelve-month period are recorded in deferred revenues, current portion, and the remaining portion is recorded in deferred revenues, net of current portion, on the accompanying condensed consolidated balance sheets at the end of each reporting period.

The Company is exposed to credit losses primarily through sales of products and services. The Company assesses the collectability of outstanding contract assets on an ongoing basis and maintains a reserve which is included in the allowance for credit losses for contract assets deemed uncollectable. Under ASU 2016-13, the Company analyzes the contract asset portfolio for significant risks by considering historical collection experience and forecasting future collectability to determine the amount of revenues that will ultimately be collected from its customers. This estimate is analyzed quarterly and adjusted as necessary. Identified risks pertaining to the Company's contract assets include the customer type. Future collectability is contingent upon current and anticipated macroeconomic conditions that could impact the Company's customers such as unemployment, inflation and regulation matters. Additionally, specific allowance amounts may be established to record the appropriate provision for customers that have a higher probability of default. Adoption of ASU 2016-13 resulted in recording an aggregate allowance reserve related to the Company's contract asset of \$0.1 million as of January 1, 2020. The Company has provisioned \$0.2 million for expected losses for the nine months ended September 30, 2020, of which zero has been written off and charged against the allowance as of September 30, 2020. The Company has increased its reserve during 2020 due to the anticipated impact of the novel coronavirus disease ("COVID-19") pandemic. There are no comparable recent events that provide guidance as to the potential impact of the COVID-19 global pandemic. As a result, the potential impact of the pandemic is highly uncertain and subject to change. The Company does not yet know the full extent of the impact of the COVID-19 pandemic on the Company's business operations or the global economy as a whole, however, the impact will likely have an adverse effect on the Company's customers and inherently the related contract assets. The allowance for credit losses related to contract assets was \$0.3 million and zero as of September 30, 2020 and December 31, 2019, respectively.

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

Accounts Receivable

Accounts receivable are stated at net realizable value, including both billed and unbilled receivables to customers. Unbilled receivable balances arise primarily when the Company provides services in advance of billing for those services. Generally, billing for revenues related to the number of End Users and the number of transactions processed by the Company's End Users that are included in the Company's minimum subscription fee occurs in the month the revenue is recognized, resulting in accounts receivable. Billing for revenues relating to the number of End Users and the number of transactions processed by the Company's End Users that are in excess of the Company's minimum subscription fees are, generally, billed in the month following the month the revenues were earned, resulting in an unbilled receivable. Unbilled receivables of \$4.0 million and \$4.3 million were included in the accounts receivable balance at September 30, 2020 and December 31, 2019, respectively.

The Company assesses the collectability of outstanding accounts receivable on an ongoing basis and maintains an allowance for credit losses for accounts receivable deemed uncollectable. Under ASU 2016-13, the Company analyzes the accounts receivable portfolio for significant risks and considers prior periods and forecasts future collectability to determine the amount of revenues that will ultimately be collected from its customers. This estimate is analyzed quarterly and adjusted as necessary. Identified risks pertaining to the Company's accounts receivable include the delinquency level and customer type. Future collectability is contingent upon current and anticipated macroeconomic conditions that could impact the Company's customers such as unemployment, inflation and regulation matters. Due to the short-term nature of such receivables, the estimate of the amount of accounts receivable that may not be collected is based on aging of the accounts receivable balances and the financial condition of customers. Historically, the Company's collection experience has not varied significantly, and bad debt expenses have been insignificant. Adoption of ASU 2016-13 resulted in the recording of an allowance reserve of approximately \$0.2 million as of January 1, 2020. The Company has provisioned \$1.0 million for expected losses for the nine months ended September 30, 2020, of which \$0.6 million has been written off and charged against the allowance as of September 30, 2020. As a result of the COVID-19 pandemic, the Company has increased its reserve. There are no comparable recent events that provide guidance as to the potential impact of the COVID-19 pandemic. As a result, the potential impact of the pandemic is highly uncertain and subject to change. The Company does not yet know the full extent of the impact of the COVID-19 pandemic on the Company's business operations or the global economy as a whole, however the impact will likely have an adverse effect on the Company's customers and inherently the related receivables. The allowance for credit losses related to accounts receivable was \$0.6 million and zero as of September 30, 2020 and December 31, 2019, respectively.

The Company maintains a reserve for estimated sales credits issued to customers for billing disputes or other service-related reasons. This allowance is recorded as a reduction against current period revenues and accounts receivable. In estimating this allowance, the Company analyzes prior periods to determine the amounts of sales credits issued to customers compared to the revenues in the period that related to the original customer invoice. This estimate is analyzed quarterly and adjusted as necessary. The allowance for sales credits was \$0.5 million at each of September 30, 2020 and December 31, 2019.

Deferred Revenues

Deferred revenues primarily consist of amounts that have been billed to or received from customers in advance of revenue recognition and prepayments received from customers in advance for implementation, maintenance and other services, as well as initial subscription fees. The Company recognizes deferred revenues as revenues when the services are performed and the corresponding revenue recognition criteria are met. Customer prepayments are generally applied against invoices issued to customers when services are performed and billed.

The net increase in the deferred revenue balance for the nine months ended September 30, 2020 is primarily driven by cash payments received or due in advance of satisfying the Company's performance obligations of \$314.7 million for current year invoices, \$4.2 million from the netting of contract assets and liabilities on a contract-by-contract basis, partially offset by the recognition of \$228.5 million of revenue recognized from current year invoices and \$71.3 million of revenue that was included in the deferred revenue balance as of December 31, 2019. Amounts recognized from deferred revenues represent primarily revenue from the sale of subscription and implementation services.

The Company's payment terms vary by the type and location of its customer and the products or services offered. The period of time between invoicing and when payment is due is not significant. For certain products or services and customer types, the Company requires payment before the products or services are delivered to the customer.

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

On September 30, 2020, the Company had \$1.2 billion of remaining performance obligations, which represents contracted revenue minimums that have not yet been recognized, including amounts that will be invoiced and recognized as revenue in future periods. The Company expects to recognize approximately 47% percent of its remaining performance obligations as revenue in the next 24 months, an additional 39% percent in the next 25 to 48 months, and the balance thereafter.

Deferred Implementation Costs

The Company capitalizes certain personnel and other costs such as employee salaries, benefits and the associated payroll taxes that are direct and incremental to the implementation of its solutions. The Company analyzes implementation costs that may be capitalized to assess their recoverability, and only capitalizes costs that it anticipates being recoverable. The Company assesses the recoverability of its deferred implementation costs based on the amount of the non-cancellable portion of a customer's contract as it relates to the specific implementation costs incurred. The Company begins amortizing the deferred implementation costs for an implementation once the revenue recognition criteria have been met, and the Company amortizes those deferred implementation costs ratably over the expected period of customer benefit. The Company has determined this period to be the estimated life of the technology, which is estimated to be five to seven years. The Company determined the period of benefit by considering factors such as historically high renewal rates with similar customers and contracts, initial contract length, an expectation that there will still be a demand for the product at the end of its term, and the significant costs to switch to a competitor's product, all of which are governed by the estimated useful life of the technology.

The portion of deferred implementation costs expected to be amortized during the succeeding twelve-month period is recorded in current assets as deferred implementation costs, current portion, and the remainder is recorded in long-term assets as deferred implementation costs, net of current portion on the condensed consolidated balance sheets. The Company capitalized implementation costs in the amount of \$4.9 million and \$3.9 million during the three months ended September 30, 2020 and 2019, respectively, and recognized \$3.3 million and \$2.1 million of amortization during the three months ended September 30, 2020 and 2019, respectively. The Company capitalized implementation costs in the amount of \$13.9 million and \$10.4 million during the nine months ended September 30, 2020 and 2019, respectively, and recognized \$7.8 million and \$5.4 million of amortization during the nine months ended September 30, 2020 and 2019, respectively. Amortization expense is included in cost of revenues in the accompanying condensed consolidated statements of comprehensive loss.

Deferred Solution and Other Costs

The Company capitalizes sales commissions and other third-party costs such as third-party licenses and maintenance related to its customer agreements. The Company capitalizes sales commissions because the commission charges are so closely related to the revenues from the non-cancellable customer agreements that they should be recorded as an asset and charged to expense over the same period that the related revenue is recognized. The Company capitalizes commissions and bonuses for those involved in the sale, including direct employees and indirect supervisors, as these are incremental to the sale. The Company historically paid commissions in two increments. The initial payment was made after the contract had been executed and the initial deposit had been received from the customer, and the final payment was made upon commencement date. The Company required that an individual remain employed to collect a commission when it was due. The service period between the first and second payment was considered a substantive service period and as a result, the Company expensed the final payment when made. Beginning in 2020, the Company pays commissions in a single payment once the contract has been executed and the initial deposit has been received from the customer. The Company begins amortizing deferred solution and other costs for a particular customer agreement once the revenue recognition criteria are met and amortizes those deferred costs over the expected period of customer benefit. The Company has determined this period to be the estimated life of the technology, which is estimated to be five to seven years. The Company determined the period of benefit by considering factors such as historically high renewal rates with similar customers and contracts, initial contract length, an expectation that there will still be a demand for the product at the end of its term, and the significant costs to switch to a competitor's product, all of which are governed by the estimated useful life of the technology.

The Company analyzes solution and other costs that may be capitalized to assess their recoverability and only capitalizes costs that it anticipates being recoverable. The portion of capitalized costs expected to be amortized during the succeeding twelve-month period is recorded in current assets as deferred solution and other costs, current portion, and the remainder is recorded in long-term assets as deferred solution and other costs, net of current portion. The Company capitalized \$4.0 million and \$2.6 million in deferred commissions costs during the three months ended September 30, 2020 and 2019, respectively, and recognized \$2.1 million and \$1.6 million of amortization during the three months ended September 30, 2020 and 2019, respectively. The Company capitalized \$12.5 million and \$10.9 million in deferred commissions costs during the nine months ended September 30, 2020 and 2019, respectively, and recognized \$6.1 million and \$4.4 million of amortization during the nine

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months ended September 30, 2020 and 2019, respectively. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of comprehensive loss.

Property and Equipment

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

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

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

Purchase Price Allocation, Intangible Assets, and Goodwill

The purchase price allocation for business combinations and asset acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The Company determines whether substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the single asset or group of assets, as applicable, is not a business. If it is not met, the Company determines whether the single asset or group of assets, as applicable, meets the definition of a business.

In connection with the Company's acquisitions discussed in Note 3 - Business Combinations, the Company recorded certain intangible assets, including acquired technology, customer relationships, trademarks, non-compete agreements and assembled workforce. Amounts allocated to the acquired intangible assets are being amortized on a straight-line basis over the estimated useful lives. The Company periodically reviews the estimated useful lives and fair values of its identifiable intangible assets, taking into consideration any events or circumstances which might result in a diminished fair value or revised useful life.

The excess purchase price over the fair value of assets acquired is recorded as goodwill. The Company tests goodwill for impairment annually in October, or whenever events or changes in circumstances indicate an impairment may have occurred. During the first quarter of 2020, the Company determined that the economic uncertainty caused by the COVID-19 pandemic was a trigger for an impairment review of goodwill and intangible assets. As a result of the review, the Company determined that goodwill was not impaired, and it was not more likely than not that there was impairment of any intangible assets. There have been no changes to the Company's assessment of goodwill impairment in the three months ended September 30, 2020. Because the Company operates in a single reporting unit, the impairment test is performed at the consolidated entity level by comparing the estimated fair value of the Company to the carrying value of the Company. The Company estimates the fair value of the reporting unit using a "step one" analysis using a fair-value-based approach based on the market capitalization or a discounted cash flow analysis of projected future results to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Determining the fair value of goodwill is subjective in nature and often involves the use of estimates and assumptions including, without limitation, use of estimates of future prices and volumes for the Company's products, capital needs, economic trends and other factors which are inherently difficult to forecast. If actual results, or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, the Company could incur impairment charges in a future period.

Revenues

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services over the term of the agreement, generally when the Company's solutions are implemented and made available to the customers. The promised consideration may include fixed amounts, variable amounts or both. Revenues are recognized net of sales credits and allowances.

Revenue-generating activities are directly related to the sale, implementation and support of the Company's solutions within a single operating segment. The Company derives the majority of its revenues from subscription fees for the use of its

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solutions hosted in either the Company's data centers or cloud-based hosting services, transaction revenue from bill-pay solutions, and revenues for customer support and implementation services related to the Company's solutions. The Company recognizes the corresponding revenues over time on a ratable basis over the customer agreement term.

The following table disaggregates the Company's revenue by major source:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Subscription	\$ 74,451	\$ 56,143	\$ 210,857	\$ 160,328
Transactional	14,476	12,264	41,204	35,977
Services and Other	14,877	11,295	41,704	32,339
Total Revenues	<u>\$ 103,804</u>	<u>\$ 79,702</u>	<u>\$ 293,765</u>	<u>\$ 228,644</u>

Subscription Revenues

The Company's software solutions are available for use as hosted application arrangements under subscription fee agreements without licensing perpetual rights to the software. Subscription fees from these applications, including contractual periodic price increases, are recognized over time on a ratable basis over the customer agreement term beginning on the date the Company's solution is made available to the customer. Amounts that have been invoiced are recorded in accounts receivable and deferred revenues or revenues, depending on whether the revenue recognition criteria have been met. Periodic price increases are estimated at contract inception and result in contract assets as revenue recognition may exceed the amount billed early in the contract. Additional fees for monthly usage above the levels included in the standard subscription fee are recognized as revenue in the month when the usage amounts are determined and reported.

A small portion of the Company's customers host and manage the Company's solutions on-premises or in third-party data centers under term license and maintenance agreements. Term licenses sold with maintenance entitle the customer to technical support, upgrades and updates to the software on a when-and-if-available basis. The Company recognizes software license revenue once the customer obtains control of the license, which generally occurs at the start of each license term. The Company recognizes the remaining arrangement consideration for maintenance revenue over time on a ratable basis over the term of the software license. If the expected length of time between when the Company transfers the software license to the customer and when the customer pays for it results in a significant financing component, the Company adjusts the promised amount of consideration for the effects of the time value of money, which reflects the price the customer would have paid when the license was transferred. Revenues from term licenses and maintenance agreements and the related financing component were not significant in the periods presented.

Transactional Revenues

The Company earns the majority of its transactional revenues based on the number of bill-pay transactions that End Users initiate on its digital banking platform. The Company also generates a smaller portion of its transactional revenues from interchange fees generated when End Users utilize debit cards integrated with its Q2 CorePro API or Q2 Biller Direct products. The Company recognizes revenue for bill-pay transaction services and interchange fees in the month incurred based on actual transactions.

Services and Other Revenues

Implementation services are required for each new digital banking and lending and leasing platform and Centrix standalone contract, and there is a significant level of integration and configuration for each customer. The Company's revenue for upfront implementation services are billed upfront and recognized over time on a ratable basis over the customer agreement term for its hosted application agreements. Upfront implementation services for on-premises agreements are recognized at commencement date. Under certain circumstances, the Company partners with third-party professional system integrators to support the installation and configuration process for its digital lending and leasing solutions, and therefore, the Company has determined that these services qualify as a separate performance obligation in certain markets and geographies, and the upfront implementation services for these agreements are recognized upon completion of the services.

Professional services revenues, which primarily consist of training, advisory services, core conversion services, web design, and other general professional services, are generally billed and recognized when delivered.

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Certain out-of-pocket expenses billed to customers are recorded as revenues rather than an offset to the related expense. Revenues recorded from out-of-pocket expense reimbursements totaled approximately \$0.3 million and \$0.5 million for the three months ended September 30, 2020 and 2019, respectively, and \$1.0 million and \$1.4 million for the nine months ended September 30, 2020 and 2019, respectively. The out-of-pocket expenses are reported in cost of revenues.

Significant Judgments

Performance Obligations and Standalone Selling Price

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The Company has contracts with customers that often include multiple performance obligations, usually including multiple subscription and implementation services. For these contracts, the Company accounts for individual performance obligations that are distinct separately by allocating the contract's total transaction price to each performance obligation in an amount based on the relative standalone selling price, or SSP, of each distinct good or service in the contract. In determining whether implementation services are distinct from subscription services, the Company considered various factors including the significant level of integration, interdependency, and interrelation between the implementation and subscription service, as well as the inability of the customer's personnel or other service providers to perform significant portions of the services. The Company has concluded that the implementation services included in contracts with multiple performance obligations in the North American banking market are not distinct and, as a result, the Company defers any arrangement fees for implementation services and recognizes such amounts over time on a ratable basis as one performance obligation with the underlying subscription revenue for the initial agreement term of the hosted application agreements. The Company has concluded that outside the North American banking market, the implementation services for its lending and leasing platform included in contracts with multiple performance obligations are distinct and, as a result, the Company recognizes implementation fees on such arrangements upon completion of the services.

The majority of the Company's revenue recognized at a particular point in time is for professional services and usage revenue. These services are performed within a relatively short period of time and are recognized at the point in time in which the customer obtains control of the asset, which is generally upon completion of the service.

Judgment is required to determine the SSP for each distinct performance obligation. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The primary method used to estimate SSP is the adjusted market assessment approach, which considers its overall pricing objectives, market conditions and other factors, including the value of the Company's contracts, its discounting practices, the size and volume of its transactions, customer characteristics, price lists, go-to-market strategy, historical standalone sales and agreement prices, and the number and types of users within its contracts.

Variable Consideration

The Company recognizes usage revenue related to End Users accessing its products in excess of contracted amounts, bill-pay transactions that End Users initiate on its digital banking platform, and interchange fees that End Users generate using the Company's solutions. Judgment is required to determine the accounting for these types of revenue. The Company considers various factors including the degree to which usage is interdependent or interrelated to past services, costs to the Company per user over the contract, and contractual price per user changes and their relationship to market terms, forecasted data, and the Company's cost to fulfill the obligation. The Company has concluded that its usage revenue relates specifically to the transfer of the service to the customer and is consistent with the allocation objective of Topic 606 when considering all of the performance obligations and payment terms in the contract. Therefore, the Company recognizes usage revenue on a monthly or quarterly basis in accordance with the agreement, as determined and reported. This allocation reflects the amount the Company expects to receive for the services for the given period.

The Company sometimes provides credits or incentives to its customers. Known and estimable credits and incentives represent a form of variable consideration, which are estimated at contract inception and reduce the revenues recognized for a particular contract. These estimates are updated at the end of each reporting period as additional information becomes available. The Company believes that there will not be significant changes to its estimates of variable consideration as of September 30, 2020.

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Other Considerations

The Company evaluates whether it is the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis) with respect to the vendor reseller agreements pursuant to which the Company resells certain third-party solutions along with the Company's solutions. Generally, the Company reports revenues from these types of contracts on a gross basis, meaning the amounts billed to customers are recorded as revenues, and expenses incurred are recorded as cost of revenues. Where the Company is the principal, it first obtains control of the inputs to the specific good or service and directs their use to create the combined output. The Company's control is evidenced by its involvement in the integration of the good or service on its platform before it is transferred to its customers and is further supported by the Company being primarily responsible to its customers and having a level of discretion in establishing pricing. Revenues provided from agreements in which the Company is an agent are insignificant.

Cost of Revenues

Cost of revenues is comprised primarily of salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, for employees providing services to the Company's customers. This includes the costs of the Company's implementation, customer support, data center and customer training personnel, as well as costs related to research and development personnel who perform implementation and customer support services. Cost of revenues also includes the direct costs of bill-pay and other third-party intellectual property included in the Company's solutions, the amortization of deferred solution and services costs, co-location facility costs and depreciation of the Company's data center assets, cloud-based hosting services, an allocation of general overhead costs and referral fees. Direct costs of third-party intellectual property include amounts paid for third-party licenses and related maintenance that are incorporated into the Company's software and the amortization of acquired technology from the Company's recent acquisitions, with the costs amortized to cost of revenues over the useful lives of the purchased assets.

The Company capitalizes certain personnel costs directly related to the implementation of its solutions to the extent those costs are recoverable from future revenues. The Company amortizes the costs for an implementation once revenue recognition commences, and the Company amortizes those implementation costs to cost of revenues over the expected period of customer benefit, which has been determined to be the estimated life of the technology. Other costs not directly recoverable from future revenues are expensed in the period incurred.

Software Development Costs

The Company capitalizes certain software development costs under accounting frameworks that differ based on the nature of the software. Software development costs include salaries and other personnel-related costs, including employee benefits and bonuses attributed to programmers, software engineers and quality control teams working on the Company's software solutions. Capitalized software development costs are computed on an individual product basis and products available for market are amortized to cost of revenues over the products' estimated economic lives. The costs related to software development are included in intangible assets, net on the condensed consolidated balance sheets.

The Company capitalizes certain development costs associated with software that is to be sold, leased or otherwise marketed that are incurred between reaching technological feasibility of a solution and the point at which the solution is ready for general release. Under this accounting framework, the Company capitalized zero software development costs for each of the three and nine months ended September 30, 2020 and 2019. The Company recognized \$0.2 million of amortization of capitalized software development costs for each of the three months ended September 30, 2020 and 2019, and \$0.6 million of amortization of capitalized software development costs for each of the nine months ended September 30, 2020 and 2019.

The Company capitalizes certain development costs associated with internal use software incurred during the application development stage. The Company expenses costs associated with preliminary project phase activities, training, maintenance and any post-implementation costs as incurred. Under this accounting framework, the Company capitalized internal use software development costs associated with its SaaS-based technology platforms in the amount of \$0.3 million and zero during the three months ended September 30, 2020 and 2019, respectively, and \$0.7 million and zero during the nine months ended September 30, 2020 and 2019, respectively. The Company recognized zero amortization for each of the three and nine months ended September 30, 2020 and 2019.

Research and Development Costs

Research and development costs include salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, third-party contractor expenses, third-party consultants, software development tools, an

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allocation of facilities and depreciation expenses and other related expenses incurred in developing new solutions and upgrading and enhancing existing solutions.

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

Advertising

All advertising costs of the Company are expensed the first time the advertising takes place. Advertising costs were \$0.2 million and \$0.3 million for the three months ended September 30, 2020 and 2019, respectively, and \$0.6 million and \$1.1 million for the nine months ended September 30, 2020 and 2019, respectively.

Sales Tax

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

Comprehensive Loss

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

Stock-Based Compensation

Stock options, restricted stock units, and market stock units awarded to employees, directors, executives and consultants are measured at fair value at each grant date. The Company does not use a forfeiture rate to recognize compensation expense. Generally, options vest 25% on the one-year anniversary of the grant date with the balance vesting monthly over the following 36 months, and restricted stock unit awards vest in four annual installments of 25% each. Market stock units are performance-based awards that vest based on the Company's stockholder return relative to the total stockholder return of the Russell 2000 Index, or Index, over a three-year period on the anniversary of the date of grant. Up to one-third of the target shares of the Company's common stock subject to each market stock unit award are eligible to be earned after the first and second years of the performance period and up to 200% of the full target number of shares subject to each market stock unit award are eligible to be earned after the completion of the three-year performance period (less any shares earned for years one and two) based on the average price of the Company's common stock relative to the Index during the performance period.

The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is presumed to be the mid-point between the vesting date and end of the contractual term. The Company used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The Company assumed no dividend yield because it does not expect to pay dividends in the near future, which is consistent with the Company's history of not paying dividends. The Company recognizes compensation expense ratably over the requisite service period of the stock option award.

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

The Company estimates the fair value of market stock units on the date of grant using a Monte Carlo simulation model. The determination of fair value of the market stock units is affected by the Company's stock price and a number of assumptions including the expected volatility and the risk-free interest rate. The Company's expected volatility at the date of grant was based on the historical volatilities of its stock and peer firms' stocks and the Index over the performance period. The Company assumed no dividend yield and recognizes compensation expense ratably over the performance period of the market stock unit

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award. The Company recognizes compensation expense using the graded attribution method on a straight-line basis over the performance period for each market stock unit award.

Convertible Senior Notes

In February 2018, the Company issued \$230.0 million principal amount of convertible senior notes due in February 2023, or the 2023 Notes. In accounting for the issuance of the 2023 Notes, the Company separated each of the 2023 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value, as of the date of issuance, of a similar debt without the conversion feature. The carrying amount of the equity component representing the conversion feature was determined by deducting the fair value of the liability components from the total initial proceeds. The difference between the par amount of the 2023 Notes and the carrying amount of the liability component represents debt discounts that are amortized to interest expense over the respective terms of the 2023 Notes using the effective interest rate method. The equity components are not remeasured as long as they continue to meet the conditions for equity classification. In accounting for the issuance costs related to the 2023 Notes, the Company allocated the total amount of issuance costs incurred to liability and equity components based on their relative values. Issuance costs attributable to the liability components are amortized to interest expense over the respective terms of the 2023 Notes using the effective interest rate method. The issuance costs attributable to the equity components were netted against the respective equity components in additional paid-in capital.

In June 2019, the Company issued \$316.3 million principal amount of convertible senior notes due in June 2026, or the 2026 Notes. In accounting for the issuance of the 2026 Notes, the Company separated each of the 2026 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value, as of the date of issuance, of a similar debt without the conversion feature. The carrying amount of the equity component representing the conversion feature was determined by deducting the fair value of the liability components from the total initial proceeds. The difference between the par amount of the 2026 Notes and the carrying amount of the liability component represents debt discounts that are amortized to interest expense over the respective terms of the 2026 Notes using the effective interest rate method. The equity components are not remeasured as long as they continue to meet the conditions for equity classification. In accounting for the issuance costs related to the 2026 Notes, the Company allocated the total amount of issuance costs incurred to liability and equity components based on their relative values. Issuance costs attributable to the liability components are amortized to interest expense over the respective terms of the 2026 Notes using the effective interest rate method. The issuance costs attributable to the equity components were netted against the respective equity components in additional paid-in capital.

Leases

The Company determines if a contract contains a lease for accounting purposes at the inception of the arrangement. The Company has elected to apply the practical expedient which allows the Company to account for lease and non-lease components of a contract as a single leasing arrangement. In addition, the Company has elected the practical expedients related to lease classification and the short-term lease exemption, whereby leases with initial terms of one year or less are not capitalized and instead expensed generally on a straight-line basis over the lease term. The Company is primarily a lessee with a lease portfolio comprised mainly of real estate and equipment leases. As of September 30, 2020, the Company had no finance leases.

Operating lease assets are included on the Company's condensed consolidated balance sheets in non-current assets as a right-of-use, or ROU, asset, and represent the Company's right to use an underlying asset for the lease term. Operating lease liabilities are included on the Company's condensed consolidated balance sheets in lease liabilities, current portion, for the portion that is due within 12 months and in lease liabilities, net of current portion, for the portion that is due beyond 12 months of the financial statement date and represent the Company's obligation to make lease payments.

ROU assets and lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term using an appropriate discount rate. If an implicit rate is not readily determined by the Company's leases, the Company utilizes the incremental borrowing rate based on the available information at the commencement date to determine the lease payments. The depreciable lives of the underlying leased assets are generally limited to the expected lease term inclusive of any optional lease renewals where the Company concludes at the inception of the lease that the Company is reasonably certain of exercising those options. The ROU asset calculation also may include any initial direct costs paid and is reduced by any lease incentives provided by the lessor. Lease expense for operating lease payments are recognized on a straight-line basis over the lease term.

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Contingent Consideration

On October 15, 2018, the Company's wholly-owned subsidiary, Q2 Software, Inc. acquired all of the outstanding capital stock of Cloud Lending, Inc., a Delaware corporation, or Cloud Lending. Certain former stockholders of Cloud Lending had the right to receive an earnout payment of up to an additional \$59.5 million in the aggregate based upon satisfaction of certain financial milestones. The final calculation for the contingent consideration payment based on the final measurement date of March 31, 2020 was \$21.2 million. As of September 30, 2020, all of the contingent consideration has been paid. Changes in the fair value of the contingent consideration subsequent to the purchase price finalization were recorded as acquisition related costs in the condensed consolidated statements of comprehensive loss.

Income Taxes

Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss carryforwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. The Company assesses the likelihood that deferred tax assets will be realized and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. To date, the Company has provided a valuation allowance against most of its deferred tax assets as it believes the objective and verifiable evidence of its historical pretax net losses outweighs any positive evidence of its forecasted future results. Although the Company believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business. The Company will continue to monitor the positive and negative evidence, and it will adjust the valuation allowance as sufficient objective positive evidence becomes available.

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of September 30, 2020, the Company has unrecognized tax benefits of \$0.2 million related to uncertain tax positions, and an insignificant amount of accrued interest. The Company received a favorable private letter ruling in the second quarter of 2020 resolving \$10.0 million of its unrecognized tax benefits, which had an insignificant impact to the income tax provision for the nine months ended September 30, 2020.

Basic and Diluted Net Loss per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net loss	\$ (26,720)	\$ (18,569)	\$ (99,799)	\$ (55,211)
Denominator:				
Weighted-average common shares outstanding, basic and diluted	53,574	47,782	51,141	45,519
Net loss per common share, basic and diluted	\$ (0.50)	\$ (0.39)	\$ (1.95)	\$ (1.21)

Due to net losses for the three and nine months ended September 30, 2020 and 2019, basic and diluted loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive. The following table sets forth the anti-dilutive common share equivalents for the periods listed:

	As of September 30,	
	2020	2019
Stock options, restricted stock units, and market stock units	3,140	3,940
Shares related to the 2023 Notes	1,544	1,226
Shares subject to warrants related to the issuance of the 2023 Notes	625	189
Shares related to the 2026 Notes	180	—
	5,489	5,355

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Because the Company has the intention and ability to settle the principal amount of each of its 2023 Notes and each of its 2026 Notes in cash, the treasury stock method is expected to be used for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. For the 2023 Notes, the conversion premium has a dilutive impact on net income per share of common stock when the average market price of common stock for a given period exceeds the conversion price of \$57.38 per share. For the 2026 Notes, the conversion premium has a dilutive impact on net income per share of common stock when the average market price of common stock for a given period exceeds the conversion price of \$88.61 per share. The warrants issued by the Company in connection with its February 2018 convertible note offering, or Warrants, have a dilutive effect when the average market price of common stock for a given period exceeds the Warrant's strike price of \$78.75 per share. During the nine months ended September 30, 2020 the average market price per share of the Company's common stock exceeded the conversion price of the 2023 and 2026 Notes and strike price of the Warrants; however, since the Company is in a net loss position, there was no dilutive effect on net income per share of the Company's common stock during any period presented. During the nine months ended September 30, 2019 the average market price per share of the Company's common stock was below the conversion price of the 2026 Notes, but exceeded the conversion price of the 2023 Notes and strike price of the Warrants; however, since the Company is in a net loss position, there was no dilutive effect on net income per share of the Company's common stock during any period presented.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)" which modifies the measurement of expected credit losses of certain financial instruments. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company adopted the standard effective January 1, 2020. The standard impacted the Company's accounting for allowances for credit losses, available-for-sale debt securities and other assets subject to credit risk. Credit losses on trade and other receivables, contract assets, available-for-sale debt securities, and other instruments reflect the Company's current estimate of the expected credit losses and generally result in the earlier recognition of allowance for losses. Adoption of the new standard resulted in the recording of a cumulative-effect adjustment to accumulated deficit of \$0.3 million on January 1, 2020. The Company will continue to actively monitor the impact of the recent COVID-19 pandemic on expected credit losses.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test and requires an entity to write down the carrying value of goodwill up to the amount by which the carrying amount of a reporting unit exceeds its fair value. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted the standard effective January 1, 2020. There was no material impact on the Company's financial position or results of operations based on the adoption of ASU 2017-04.

In August 2020, the FASB issued ASU No. 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)" which simplifies the accounting for convertible debt instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. In addition, the guidance eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. The standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently evaluating the potential effects of this guidance on its consolidated financial statements.

3. Business Combinations

PrecisionLender

On October 31, 2019, the Company's wholly-owned subsidiary, Q2 Software, Inc. acquired all of the outstanding equity interests of privately-owned PrecisionLender. The acquisition added to the Company's portfolio of solutions PrecisionLender's data-driven sales enablement, pricing and portfolio management solutions for financial institutions globally. The purchase price paid was in excess of the fair value of the net assets acquired and, as a result, the Company recorded goodwill.

PrecisionLender was acquired for approximately \$510.0 million in cash from existing balances. At closing, the Company deposited into an escrow account \$3.0 million of the initial consideration, or PL Purchase Price Escrow Amount, to compensate

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for any post-closing working capital adjustments. To the extent not utilized, the PL Purchase Price Escrow Amount was to be paid to the former stockholders of PrecisionLender at the end of the 60-day adjustment period unless there were any unresolved claims remaining at that time. The Company released the \$3.0 million in the PL Purchase Price Escrow Amount and paid out an additional \$0.2 million related to the finalization of the closing estimates to the former stockholders of PrecisionLender during the nine months ended September 30, 2020. At closing, the Company also deposited into an escrow account \$1.8 million of the initial consideration, or PL Escrow Amount, to compensate for any breach of a representation or warranty or any violation or default of any obligation by the sellers subsequent to the acquisition during a period of 18 months following the acquisition date. To the extent not utilized, the PL Escrow Amount shall be paid to the former stockholders of PrecisionLender at the end of the 18-month period unless there are any unresolved claims remaining at that time.

The Company accrues for payouts contingent upon continued and future employment of acquired employees and contractors of PrecisionLender, and the unpaid amounts due to the continuing employees are recorded in accrued compensation in the condensed consolidated balance sheets. Compensation expense recognized under these agreements, which is included in cost of revenues in the condensed consolidated statements of comprehensive loss, was \$0.2 million and \$0.7 million, for the three and nine months ended September 30, 2020, respectively, and compensation expense recognized under these agreements included in acquisition related costs in the condensed consolidated statements of comprehensive loss was \$0.7 million and \$2.2 million, respectively, for the three and nine months ended September 30, 2020, respectively. The Company paid \$0.7 million to acquired employees during the nine months ended September 30, 2020.

Gro Solutions

On November 30, 2018, the Company's wholly-owned subsidiary, Q2 Software, Inc. acquired all of the outstanding shares of Gro Solutions, or Gro, a privately-owned provider of digital account opening and sales and marketing solutions. The purchase price paid was in excess of the fair value of the net assets acquired, and as a result, the Company recorded goodwill.

Gro was acquired for approximately \$25.5 million in cash from existing balances. At closing, the Company deposited into an escrow account \$0.4 million of the initial consideration, or Gro Escrow Amount, to compensate for any breach of a representation or warranty or any violation or default of any obligation by the sellers subsequent to the acquisition during an escrow period of 12 or 18 months following the acquisition date depending upon the nature of the breach, violation or default. To the extent not utilized, the Gro Escrow Amount shall be paid to the former stockholders of Gro at the end of the 18-month period unless there are any unresolved claims remaining at that time. The Company released \$0.2 million during the nine months ended September 30, 2020 related to the Gro Escrow Amount, bringing the balance of the escrow to zero at September 30, 2020.

The Company accrues for payouts contingent upon continued and future employment of acquired employees and contractors of Gro, and the unpaid amounts due to the continuing employees are recorded in accrued compensation in the condensed consolidated balance sheets. Compensation expense recognized under these agreements, which is included in acquisition related costs in the condensed consolidated statements of comprehensive loss, was less than \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2020, respectively and zero and \$0.2 million for the three and nine months ended September 30, 2019, respectively.

Cloud Lending

On October 15, 2018, the Company's wholly-owned subsidiary, Q2 Software, Inc. acquired all of the outstanding capital stock of Cloud Lending Inc., or Cloud Lending, a privately-owned provider of end-to-end digital lending and leasing platform solutions. The purchase price paid was in excess of the fair value of the net assets acquired and, as a result, the Company recorded goodwill.

Cloud Lending was acquired for a purchase price of approximately \$125.1 million of which the Company paid \$107.3 million in cash. At closing, the Company deposited into an escrow account \$10.5 million of the initial consideration, or CL Escrow Amount, to compensate for any breach of a representation or warranty or any violation or default of any obligation by the sellers subsequent to the acquisition during the period of 18 months following the acquisition date. During the nine months ended September 30, 2020, the Company released \$10.1 million of the CL Escrow Amount, bringing the balance of the escrow to zero at September 30, 2020.

Certain former stockholders of Cloud Lending had the right to receive an earnout payment of up to an additional \$59.5 million in the aggregate based upon the achievement of certain financial milestones by applicable measurement dates of June 30, 2019 and March 31, 2020. Financial milestones triggering payout on the first measurement date of June 30, 2019 were not

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achieved. The final calculation for the contingent consideration payment based on the final measurement date of March 31, 2020 was \$21.2 million. As of September 30, 2020, all of the contingent consideration had been paid. Changes in the fair value of the contingent consideration subsequent to the purchase price finalization were recorded as acquisition related costs in the condensed consolidated statements of comprehensive loss.

The Company accrues for payouts contingent upon continued and future employment of acquired employees and contractors of Cloud Lending, and the unpaid amounts due to the continuing employees are recorded in accrued compensation in the condensed consolidated balance sheets. Compensation expense recognized under these agreements, which is included in cost of revenues and acquisition related costs in the condensed consolidated statements of comprehensive loss, was zero and \$0.1 million combined for the three and nine months ended September 30, 2020, respectively, and \$0.3 million and \$1.3 million combined for the three and nine months ended September 30, 2019, respectively. The Company paid \$0.8 million to acquired employees during the nine months ended September 30, 2020.

4. Fair Value Measurements

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

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

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

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

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The following table details the fair value hierarchy of the Company's financial assets measured at fair value on a recurring basis as of September 30, 2020:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Assets	Fair Value			
Cash Equivalents:				
Money market funds	\$ 249,045	\$ 249,045	\$ —	\$ —
Certificates of deposit	15,018	—	15,018	—
Corporate bonds and commercial paper	855	—	855	—
	<u>\$ 264,918</u>	<u>\$ 249,045</u>	<u>\$ 15,873</u>	<u>\$ —</u>
Investments:				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Corporate bonds and commercial paper	\$ 25,908	\$ —	\$ 25,908	\$ —
Certificates of deposit	5,000	—	5,000	—
	<u>\$ 30,908</u>	<u>\$ —</u>	<u>\$ 30,908</u>	<u>\$ —</u>

The following table details the fair value hierarchy of the Company's financial assets measured at fair value on a recurring basis as of December 31, 2019:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Assets				
Cash Equivalents:				
Money market funds	\$ 14,518	\$ 14,518	\$ —	\$ —
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Investments:				
Corporate bonds and commercial paper	\$ 32,325	\$ —	\$ 32,325	\$ —
Liabilities				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Accrued compensation:				
Contingent consideration	\$ 24,120	\$ —	\$ —	\$ 24,120

The Company determines the fair value of its investment holdings based on pricing from its pricing vendors. The valuation techniques used to measure the fair value of financial instruments having Level II inputs were derived from non-binding consensus prices that are corroborated by observable market data or quoted market prices for similar instruments. Such

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market prices may be quoted prices in active markets for identical assets (Level I inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level II inputs).

The Company added contingent consideration on October 15, 2018 with the acquisition of Cloud Lending. The contingent consideration liabilities were recorded at fair value on the acquisition date and subsequently adjusted to fair value at each reporting period. The Company's contingent consideration was valued using a Monte Carlo simulation model. The assumptions used in preparing the Monte Carlo simulation model included estimates for revenue growth rates, revenue volatility, revenue recognition periods, risk-free rates and discount rates. The increases or decreases in the fair value of contingent consideration payable can result from changes in anticipated revenue levels and assumed discount periods and rates. The final calculation for the contingent consideration payment based on the final measurement date of March 31, 2020 was \$21.2 million. As of September 30, 2020, all of the contingent consideration has been paid. The final value of the contingent consideration decreased by \$2.9 million from the estimated fair value at December 31, 2019. This decrease was mainly attributable to the Company's actual achievement, which was in part impacted by the delays in customer purchasing decisions experienced as a result of the uncertainty around COVID-19.

5. Cash, Cash Equivalents and Investments

The Company's cash, cash equivalents and investments as of September 30, 2020 and December 31, 2019 consisted primarily of cash, U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and money market funds.

The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses on available-for-sale investments are included in accumulated other comprehensive loss, a component of stockholders' equity. The adoption of ASU 2016-13 did not have a material impact on the Company's accounting for available-for-sale debt securities. If the Company does not expect to recover the entire amortized cost basis of the available-for-sale debt security, it considers the available-for-sale debt security to be impaired. For individual debt securities classified as available-for-sale and deemed impaired, the Company assesses whether such decline has resulted from a credit loss or other factors. Impairment relating to credit losses is recorded through a reserve, limited to the amount that the fair value is less than the amortized cost basis. Impairment deemed to be non-credit related is reported in other income (expense), net in the condensed consolidated statements of comprehensive loss. Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of comprehensive loss. Interest, amortization of premiums and accretion of discount on all investments classified as available-for-sale are also included as a component of other income (expense), net in the condensed consolidated statements of comprehensive loss. Based on the Company's assessment, no impairments for credit losses were recognized during the three months ended September 30, 2020.

As of September 30, 2020 and December 31, 2019, the Company's cash was \$100.3 million and \$85.6 million, respectively.

A summary of the Company's cash equivalents and investments as of September 30, 2020 is as follows:

Cash Equivalents:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 249,045	\$ —	\$ —	\$ 249,045
Certificates of deposit	15,018	—	—	15,018
Corporate bonds and commercial paper	855	—	—	855
	<u>\$ 264,918</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 264,918</u>
Investments:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and commercial paper	\$ 25,865	\$ 45	\$ (2)	\$ 25,908
Certificates of deposit	5,000	—	—	5,000
	<u>\$ 30,865</u>	<u>\$ 45</u>	<u>\$ (2)</u>	<u>\$ 30,908</u>

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A summary of the Company's cash equivalents and investments as of December 31, 2019 is as follows:

Cash Equivalents:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 14,518	\$ —	\$ —	\$ 14,518
Investments:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and commercial paper	\$ 32,216	\$ 110	\$ (1)	\$ 32,325

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

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

	September 30, 2020	December 31, 2019
Due within one year or less	\$ 30,908	\$ 29,789
Due after one year through five years	—	2,536
	<u>\$ 30,908</u>	<u>\$ 32,325</u>

The Company has certain available-for-sale investments in a gross unrealized loss position, all of which have been in such position for less than twelve months. The Company regularly reviews its investments for impairment resulting from credit loss using both qualitative and quantitative criteria, as necessary, based on the composition of the portfolio at period end. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer and its intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's amortized-cost basis. If the Company determines that impairment exists in one of these investments, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized in other income, net in the condensed consolidated statements of comprehensive loss if the intent of the Company was to sell the investment before recovery. If the Company did not intend to sell, the portion of the write-down related to credit loss would be recorded to a reserve. Any portion not related to credit loss would be included in accumulated other comprehensive loss in the condensed consolidated statements of comprehensive loss. Because the Company does not intend to sell any investments which have an unrealized loss position at this time, and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the reserve for available-for-sale debt securities was zero as of September 30, 2020.

The following table shows the fair values and the gross unrealized losses of these available-for-sale investments aggregated by investment category as of September 30, 2020.

	Adjusted Cost	Gross Unrealized Loss	Fair Value
Corporate bonds and commercial paper	\$ 9,291	\$ (2)	\$ 9,289

The following table shows the fair values and the gross unrealized losses of these available-for-sale investments aggregated by investment category as of December 31, 2019:

	Adjusted Cost	Gross Unrealized Loss	Fair Value
Corporate bonds and commercial paper	\$ 2,537	\$ (1)	\$ 2,536

6. Goodwill and Intangible Assets

The carrying amount of goodwill was \$462.3 million and \$462.0 million as of September 30, 2020 and December 31, 2019, respectively. During the fourth quarter of 2019, the Company added \$354.2 million of goodwill for the PrecisionLender

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acquisition, and during 2018 the Company added \$77.0 million of goodwill for the Cloud Lending acquisition and \$17.8 million for the Gro acquisition. Goodwill represents the excess purchase price over the fair value of assets acquired. The Company has one operating segment and one reporting unit. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach based on the market capitalization of the reporting unit. The annual impairment test was performed as of October 31, 2019. During the first quarter of 2020, the Company determined that the economic uncertainty caused by the COVID-19 pandemic was a trigger for an impairment review of goodwill. As a result of the review, the Company determined that goodwill was not impaired, and it was not more likely than not that there was impairment of any intangible assets. There have been no changes to the Company's assessment of goodwill or intangible asset impairment in the three months ended September 30, 2020. No impairment of goodwill was identified, nor has any impairment of goodwill been recorded to date.

Intangible assets at September 30, 2020 and December 31, 2019 were as follows:

	As of September 30, 2020			As of December 31, 2019		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 64,405	\$ (15,362)	\$ 49,043	\$ 64,405	\$ (5,746)	\$ 58,659
Non-compete agreements	13,505	(3,370)	10,135	13,505	(1,375)	12,130
Trademarks	22,280	(5,438)	16,842	22,280	(3,653)	18,627
Acquired technology	148,613	(32,373)	116,240	148,613	(16,192)	132,421
Assembled workforce	38	(38)	—	38	(37)	1
Capitalized software development costs	4,804	(2,724)	2,080	4,151	(2,128)	2,023
	<u>\$ 253,645</u>	<u>\$ (59,305)</u>	<u>\$ 194,340</u>	<u>\$ 252,992</u>	<u>\$ (29,131)</u>	<u>\$ 223,861</u>

The Company recorded intangible assets from the business combinations discussed in Note 3 - Business Combinations. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from two to ten years. Amortization expense included in cost of revenues in the condensed consolidated statements of comprehensive loss was \$5.3 million and \$1.9 million for the three months ended September 30, 2020 and 2019, respectively, and \$16.2 million and \$5.5 million for the nine months ended September 30, 2020 and 2019, respectively. Amortization expense included in operating expenses in the condensed consolidated statements of comprehensive loss was \$4.5 million and \$0.9 million for the three months ended September 30, 2020 and 2019, respectively, and \$13.4 million and \$3.0 million for the nine months ended September 30, 2020 and 2019, respectively.

Gross capitalized software development costs were \$4.8 million and \$4.2 million as of September 30, 2020 and December 31, 2019, respectively. The Company amortized \$0.2 million of capitalized software development costs for each of the three months ended September 30, 2020 and 2019, and \$0.6 million for each of the nine months ended September 30, 2020 and 2019. Capitalized software development costs are computed on an individual product basis and those products available for market are amortized to cost of revenues over the products' estimated economic lives, which are expected to be five years.

7. Commitments and Contingencies

Operating Lease Commitments

The Company leases office space under non-cancellable operating leases for its corporate headquarters in Austin, Texas in two adjacent buildings under separate lease agreements. Pursuant to the first of which the Company leases approximately 67 square feet of office space with an initial term that expires on April 30, 2021, with the option to extend the lease for an additional five-year term, and pursuant to the second of which the Company leases approximately 129 square feet of office space with an initial term that expires on April 30, 2028, with the option to extend the lease for an additional ten-year term. The Company also leases office space in south Austin, Texas; Lincoln, Nebraska; Des Moines, Iowa; Atlanta, Georgia; Asheville, North Carolina; Charlotte, North Carolina; Cary, North Carolina; San Mateo, California; Bangalore, India; Sydney, Australia; London, United Kingdom; and Amsterdam, Netherlands. On December 18, 2019, the Company entered into an office lease agreement with Aspen Lake Building Three, LLC to lease approximately 129 rentable square feet of an office building to be located immediately adjacent to the Company's headquarters in order to expand the Company's headquarters, commencing June 1, 2021.

During the second quarter of 2020, the Company vacated its San Mateo, California facilities and recorded an unoccupied lease charge of \$0.7 million for the remaining contractual lease payments and related fees, less estimated sublease income.

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During the third quarter of 2020, the Company vacated the remainder of its South Austin facility and a portion of its Charlotte, North Carolina facility and recorded an unoccupied lease charge of \$1.5 million for the remaining contractual lease payments and related fees, less estimated sublease income. During the year ended December 31, 2019, the Company vacated one of its Atlanta, Georgia facilities and recorded an unoccupied lease charge of \$0.4 million for the remaining contractual lease payments and related fees, less estimated sublease income. The lease liabilities related to the subleases that are expected to be paid during the succeeding twelve-month period of \$0.8 million are recorded in accrued liabilities, and the remaining portion of the associated liability of \$1.5 million is recorded in other long-term liabilities on the accompanying condensed consolidated balance sheet at September 30, 2020.

The Company believes its current facilities and facilities under contract will be adequate for its needs for the current term and will evaluate its need for expansion beyond the 2021 lease expiration. Rent expense under operating leases was \$1.7 million and \$1.3 million for the three months ended September 30, 2020 and 2019, respectively, and \$5.1 million and \$3.7 million for the nine months ended September 30, 2020 and 2019, respectively.

The components of lease costs, lease term and discount rate were as follows:

	<u>Operating Leases</u>
Lease expense:	
Operating lease expense	\$ 6,984
Sublease income	(526)
Total lease expense	<u>\$ 6,458</u>
Other information:	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 7,272
Right-of-use assets obtained in exchange for operating lease liabilities as of September 30, 2020	\$ 31,067
Weighted-average remaining lease term - operating leases	6.2 years
Weighted-average discount rate - operating leases	5.5 %

Future minimum payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at September 30, 2020 were as follows:

	<u>Operating Leases</u>
Year Ended December 31,	
2020 (October 1 to December 31)	\$ 2,453
2021	8,791
2022	8,345
2023	8,107
2024	7,104
Thereafter	16,453
Total lease payments	<u>\$ 51,253</u>
Less: present value discount	(11,028)
Present value of lease liabilities	<u>\$ 40,225</u>

As of September 30, 2020, the Company had approximately \$32.9 million of future payments under additional leases, primarily for corporate facilities, that have not yet commenced. These operating leases will commence between November 2020 and June 2021 with lease terms of approximately six years to ten years.

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Contractual Commitments

The Company has non-cancelable contractual commitments related to the 2023 Notes and the 2026 Notes as well as the related interest, third-party products, co-location fees and other product costs. The Company is party to several purchase commitments for third-party products that contain both a contractual minimum obligation and a variable obligation based upon usage or other factors which can change on a monthly basis. The interest on the 2023 Notes is payable semi-annually on February 15 and August 15 of each year. The interest on the 2026 Notes is payable semi-annually on June 1 and December 1 of each year. The estimated amounts for usage and other factors are not included within the table below.

In the quarter ended June 30, 2020, in connection with the termination of a strategic partnership, the Company paid a termination fee of \$5.6 million in May 2020 with a remaining payment of \$7.6 million to be made in the third quarter of 2021. The Company recorded the \$13.2 million charge in partnership termination charges in the condensed consolidated statements of comprehensive loss in the second quarter of 2020 and has recorded the unpaid portion of the termination fee in accrued liabilities on the accompanying condensed consolidated balance sheet at September 30, 2020. Future minimum contractual commitments that have initial or remaining non-cancelable terms in excess of one year were as follows:

	Contractual Commitments
Year Ended December 31,	
2020 (from October 1 to December 31)	\$ 8,169
2021	29,801
2022	19,115
2023	242,584
2024	2,651
Thereafter	319,808
Total commitments	<u>\$ 622,128</u>

Legal Proceedings

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

Loss Contingencies

In the ordinary course of business, the Company is subject to loss contingencies that cover a range of matters. An estimated loss from a loss contingency, such as a legal proceeding or claim, is accrued if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

8. Convertible Senior Notes

0.75% Convertible Notes due 2023

In February 2018, the Company issued \$230.0 million principal amount of convertible senior notes due in February 2023. The interest rates for the 2023 Notes are fixed at 0.75% per annum with interest payable semi-annually on February 15 and August 15 of each year, commencing on August 15, 2018. The 2023 Notes mature on February 15, 2023, unless earlier converted or repurchased in accordance with their terms prior to such date. Each \$1,000 of principal of the 2023 Notes will initially be convertible into 17.4292 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$57.38 per share. The initial conversion price for each of the 2023 Notes is subject to adjustment upon the occurrence of certain specified events.

The 2023 Notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2023 Notes, rank equally in right of payment with any of the Company's indebtedness that is not so subordinated, are effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness and are structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's current or future subsidiaries.

On or after November 15, 2022, holders may convert all or any portion of their 2023 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the succeeding

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conditions described herein. Upon conversion, the Company will pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at its election, as described in the indenture governing the 2023 Notes.

Holders may convert their 2023 Notes at their option at any time prior to the close of business on the business day immediately preceding November 15, 2022 only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five consecutive business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of 2023 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events.

If a fundamental change (as defined in the relevant indenture governing the 2023 Notes) occurs prior to the maturity date, holders of each of the 2023 Notes may require the Company to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the 2023 Notes, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

For more than 20 trading days during the 30 consecutive trading days ended December 31, 2019, the last reported sale price of the Company's common stock exceeded 130% of the conversion price of the 2023 Notes. As a result, the 2023 Notes became convertible at the option of the holders on January 1, 2020 and were convertible through March 31, 2020. For more than 20 trading days during the 30 consecutive trading days ended June 30, 2020 and September 30, 2020, the last reported sale price of the Company's common stock exceeded 130% of the conversion price of the 2023 Notes. As a result, the 2023 Notes became convertible at the option of the holders on July 1, 2020 and are convertible through December 31, 2020. As of September 30, 2020, the if-converted value of the 2023 Notes exceed the principal amount by \$135.8 million. The if-converted value was determined based on the closing price of the Company's common stock of \$91.26 on September 30, 2020. 19 notes of the 2023 Notes, with a principal amount of \$1,000 each, have been converted since original issuance of the 2023 Notes through the date of this filing.

In accordance with accounting guidance for cash conversion features, the Company valued the liability component at the estimated fair value, as of the date of issuance, of a similar debt without the conversion feature. The effective interest rate for the liability component was 5.875%. The liability component of the 2023 Notes is recorded in long-term debt, and the interest payable is recorded in accrued liabilities on the condensed consolidated balance sheets as of September 30, 2020. The Company recorded the difference between the initial proceeds of the convertible debt and the fair value of the conversion feature, and the difference was allocated to additional paid-in capital on the condensed consolidated balance sheets as the carrying amount of the equity component.

In accounting for the transaction costs for the February 2018 convertible note offering, the Company allocated the costs incurred to the liability and equity components in proportion to the allocation of the proceeds from issuance to the liability and equity components. Issuance costs attributable to the liability component, totaling \$5.3 million for the 2023 Notes are being amortized to expense over the expected life the 2023 Notes using the effective interest method. Issuance costs attributable to the equity component related to the conversion feature, totaling \$1.5 million for the 2023 Notes were netted with the equity component.

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The 2023 Notes consist of the following:

	As of September 30, 2020	As of December 31, 2019
Liability component:		
Principal	\$ 229,988	\$ 229,999
Unamortized debt discount	(25,953)	(33,376)
Unamortized debt issuance costs	(2,702)	(3,486)
Net carrying amount	201,333	193,137
Equity component:		
Net carrying amount	\$ 48,919	\$ 48,919

The following table sets forth total interest expense recognized related to the 2023 Notes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Contractual interest expense	\$ 431	\$ 431	\$ 1,294	\$ 1,299
Amortization of debt issuance costs	276	259	819	759
Amortization of debt discount	2,506	2,364	7,422	7,004
Total	\$ 3,213	\$ 3,054	\$ 9,535	\$ 9,062

As of September 30, 2020, the remaining period over which the debt discount and debt issuance costs will be amortized was 2.4 years.

Bond Hedges and Warrants Transactions

Concurrent with the February 2018 convertible note offering, the Company entered into separate convertible note bond hedges, or Bond Hedges, and Warrants transactions. The Bond Hedges are generally expected to reduce potential dilution to the Company's common stock upon conversion of the 2023 Notes. The Bond Hedges are call options that give the Company the option to purchase, subject to anti-dilution adjustments substantially identical to those in the 2023 Notes, approximately 0.9 million shares of its common stock for \$57.38 per share, exercisable upon conversion of the 2023 Notes and expires in February 2023. The total cost of the Bond Hedges transactions was \$41.7 million.

Under the Warrants transaction, the Company issued warrants to acquire, subject to anti-dilution adjustments, up to approximately 4.0 million shares over 80 scheduled trading days beginning on May 15, 2023 at an exercise price of \$78.75 per share. If the Warrants are not exercised on their exercise dates, they will expire. Pursuant to the Warrants, if the average market value per share of the Company's common stock for the reporting period, as measured under the Warrants, exceeds the exercise price of the Warrants of \$78.75, the Warrants will have a dilutive effect on the Company's earnings per share, assuming the Company is profitable. The Company received \$22.4 million in cash proceeds from the sale of the Warrants.

The Bond Hedges and the Warrants are separate transactions, in each case, entered into by the Company with counterparties, and are not part of the terms of the 2023 Notes and will not affect any holders' rights under the 2023 Notes. The holders of the 2023 Notes will not have any rights with respect to the Bond Hedges or Warrants transactions. The Bond Hedges and Warrants do not meet the criteria for derivative accounting as they are indexed to the Company's stock. The amounts paid for the Bond Hedges and the proceeds received from the sale of the Warrants have been included as a net reduction to additional paid-in capital.

0.75% Convertible Note due 2026

In June 2019, the Company issued \$316.3 million principal amount of convertible senior notes due in June 2026. The interest rates for the 2026 Notes are fixed at 0.75% per annum with interest payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2019. The 2026 Notes mature on June 1, 2026, unless earlier converted or repurchased in accordance with their terms prior to such date. Each \$1,000 of principal of the 2026 Notes will initially be convertible into 11.2851 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$88.61 per share. The initial conversion price for each of the 2026 Notes is subject to adjustment upon the occurrence of certain specified events.

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The 2026 Notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 2026 Notes, rank equally in right of payment with any of the Company's indebtedness that is not so subordinated, including the 2023 Notes, are effectively junior to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness and are structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's current and future subsidiaries.

On or after June 5, 2023, the Company may redeem for cash all or any portion of the 2026 Notes, at the Company's option if the last reported sale price of the Company's common stock has been at least 130% of the conversion price in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading-day period. If the Company calls any or all of the 2026 Notes for redemption, holders may convert all or any portion of their 2026 Notes at any time prior to the close of business on the scheduled trading day prior to the redemption date, even if the 2026 Notes are not otherwise convertible at such time. After that time, the right to convert such 2026 Notes will expire, unless the Company defaults in the payment of the redemption price, in which case a holder of 2026 Notes may convert all or any portion of its 2026 Notes until the redemption price has been paid or duly provided for.

On or after March 1, 2026, holders may convert all or any portion of their 2026 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the succeeding conditions described herein. Upon conversion, the Company will pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at its election, as described in the indenture governing the 2026 Notes.

Holders may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding March 1, 2026 only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on September 30, 2019 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five consecutive business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events.

If a fundamental change (as defined in the relevant indenture governing the 2026 Notes) occurs prior to the maturity date, holders of each of the 2026 Notes may require the Company to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the 2026 Notes, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. As of September 30, 2020, the 2026 Notes were not convertible. However, as of September 30, 2020, the if-converted value of the 2026 Notes exceeded the principal amount by \$9.4 million. The if-converted value was determined based on the closing price of the Company's common stock of \$91.26 on September 30, 2020.

In accordance with accounting guidance for cash conversion features, the Company valued the liability component at the estimated fair value, as of the date of issuance, of a similar debt without the conversion feature. The effective interest rate for the liability component was 5.38%. The liability component of the 2026 Notes is recorded in long-term debt, and the interest payable is recorded in accrued liabilities on the condensed consolidated balance sheets as of September 30, 2020. The Company recorded the difference between the initial proceeds of the convertible debt and the fair value of the conversion feature, and the difference was allocated to additional paid-in capital on the condensed consolidated balance sheets as the carrying amount of the equity component.

In accounting for the transaction costs for the June 2019 convertible note offering, the Company allocated the costs incurred to the liability and equity components in proportion to the allocation of the proceeds from issuance to the liability and equity components. Issuance costs attributable to the liability component, totaling \$6.4 million for the 2026 Notes are being amortized to expense over the expected life the 2026 Notes using the effective interest method. Issuance costs attributable to the equity component related to the conversion feature, totaling \$2.9 million for the 2026 Notes were netted with the equity component.

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The 2026 Notes consist of the following:

	As of September 30, 2020	As of December 31, 2019
Liability component:		
Principal	\$ 316,250	\$ 316,250
Unamortized debt discount	(70,713)	(78,672)
Unamortized debt issuance costs	(5,323)	(5,931)
Net carrying amount	240,214	231,647
Equity component:		
Net carrying amount	\$ 81,550	\$ 81,550

The following table sets forth total interest expense recognized related to the 2026 Notes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Contractual interest expense	\$ 593	\$ 593	1,772	\$ 731
Amortization of debt issuance costs	206	200	608	245
Amortization of debt discount	2,698	2,556	7,959	3,146
Total	\$ 3,497	\$ 3,349	\$ 10,339	\$ 4,122

As of September 30, 2020, the remaining period over which the debt discount and debt issuance costs will be amortized was 5.7 years.

Capped Call Transactions

In connection with the June 2019 convertible note offering, the Company entered into capped call transactions with one or more counterparties, or the Capped Calls. The Capped Calls each have an initial strike price of \$88.6124 per share, subject to certain adjustments, which correspond to the initial conversion price of the 2026 Notes. The Capped Calls have initial cap prices of \$139.00 per share. The Capped Calls are expected to offset the potential dilution to the common stock upon any conversion of the 2026 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the 2026 Notes in the event the market price per share of common stock is greater than the strike price of the Capped Call, with such offset subject to a cap. If, however, the market price per share of the common stock exceeds the cap price of the Capped Calls, there would be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that the then-market price per share of the common stock exceeds the cap price. As the Capped Calls are considered indexed to the Company's stock and are considered equity classified, they are recorded in stockholders' equity on the condensed consolidated balance sheet and are not accounted for as derivatives. The cost of \$40.8 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital.

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9. Stockholders' Equity

On May 15, 2020, the Company completed a registered public offering of 4,735,294 shares of the Company's common stock at a price of \$76.50 per share, before underwriting discounts and commissions. The Company sold 4,235,294 of such shares and existing stockholders sold an aggregate of 500,000 of such shares. The May 2020 common stock offering generated net proceeds to the Company of approximately \$311.3 million, after deducting \$12.7 million in underwriting discounts and commissions and offering costs, which have been recorded against the proceeds received from the offering. The Company did not receive any proceeds from the sale of shares by the selling stockholders in the May 2020 common stock offering.

On June 10, 2019, the Company completed a registered public offering of 2,637,986 shares of the Company's common stock at a price of \$69.50 per share, before underwriting discounts and commissions. On June 12, 2019, the Company completed the sale of an additional 395,698 shares of the Company's common stock at a price of \$69.50 per share, before underwriting discounts and commissions, as a result of the underwriters' exercise of their option to purchase additional shares. The Company sold 2,913,684 of such shares and an existing stockholder sold an aggregate of 120,000 of such shares. The June 2019 common stock offering generated net proceeds to the Company of approximately \$195.3 million, after deducting \$8.2 million in underwriting discounts and commissions and offering costs, which have been recorded against the proceeds received from the offering. The Company did not receive any proceeds from the sale of shares by the selling stockholder in the June 2019 common stock offering.

10. Stock-Based Compensation

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

As of December 31, 2019, a total of 11,145 shares had been reserved for issuance under the 2014 Plan. The 2014 Plan contains a provision that automatically increases the shares available for issuance under the plan on January 1 of each year subsequent to the 2014 Plan's adoption through 2024, by an amount equal to the smaller of (a) 4.5% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Company's board of directors. On January 1, 2020, 2,177 shares were added to the 2014 Plan in accordance with the annual automatic increase provision of the 2014 Plan. In addition, the 2014 Plan reserve is automatically increased to include any shares issuable upon expiration or termination of options granted under the Company's 2007 Stock Plan, or 2007 Plan, for options that expire or terminate without having been exercised. For the nine months ended September 30, 2020, no shares have been transferred to the 2014 Plan from the 2007 Plan, and as of September 30, 2020 a total of 13,322 shares were allocated for issuance under the 2014 Plan. As of September 30, 2020, options to purchase a total of 2,706 shares of common stock have been granted under the 2014 Plan, 5,589 shares have been reserved under the 2014 Plan for the vesting of restricted stock units and market stock units, 1,065 shares have been returned to the 2014 Plan as a result of termination of options that expired or terminated without having been exercised and restricted stock awards that terminated prior to the awards vesting, and 6,092 shares of common stock remain available for future issuance under the 2014 Plan.

In July 2007, the Company adopted the 2007 Plan under which options or stock purchase rights may be granted to employees, consultants and directors. Upon the completion of the Company's initial public offering, or IPO, in March 2014, the board of directors terminated the 2007 Plan in connection with the IPO and all shares that were available for future issuance under the 2007 Plan at such time were transferred to the 2014 Plan. The 2007 Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the 2007 Plan. As of September 30, 2020, no shares remain available for future issuance under the 2007 Plan.

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Stock Options

Stock option activity during the nine months ended September 30, 2020 was as follows:

	Number of Options	Weighted Average Exercise Price
Balance as of January 1, 2020	1,419	\$ 23.61
Granted	—	—
Exercised	(462)	19.91
Forfeited	(28)	29.50
Balance as of September 30, 2020	929	\$ 25.27

Restricted Stock Units

Restricted stock unit activity during the nine months ended September 30, 2020 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of January 1, 2020	1,952	\$ 58.86
Granted	694	79.06
Vested	(645)	53.48
Forfeited	(166)	57.53
Nonvested as of September 30, 2020	1,835	\$ 68.52

Market Stock Units

Market stock unit activity during the nine months ended September 30, 2020 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of January 1, 2020	434	\$ 28.85
Granted	131	30.16
Vested	(150)	15.48
Forfeited	(39)	32.86
Nonvested as of September 30, 2020	376	\$ 34.26

11. Income Taxes

In accordance with applicable accounting guidance, the income tax expense for the three months ended September 30, 2020 is based on the estimated annual effective tax rate for fiscal year 2020. The estimated effective tax rate may be subject to adjustment in subsequent quarterly periods as the forecasts of pretax income and other items impacting forecasted income tax expense change.

The Company's benefit from (provision for) income taxes reflected an effective tax rate of approximately (0.4)% and 0.2% for the three months ended September 30, 2020 and 2019, respectively, and (0.6)% and 0.6% for the nine months ended September 30, 2020 and 2019, respectively. For the three and nine months ended September 30, 2020 and 2019, the Company's effective tax rate was lower than the U.S. federal statutory rate primarily due to its valuation allowance offsetting the benefits of losses in the United States.

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

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The Company has unrecognized tax benefits as of September 30, 2020 of \$0.2 million related to prior year uncertain tax positions, and an insignificant amount of accrued interest. The Company received a favorable private letter ruling in the second quarter of 2020 resolving \$10.0 million of its unrecognized tax benefits, which will have no rate impact. The remaining balance of unrecognized tax benefits are expected to be settled with taxing authorities within the next twelve months, which will have an impact to the Company's effective tax rate. Operating losses generated in years prior to 2016 remain open to adjustment until the statute of limitations closes for the tax year in which the net operating losses are utilized. The Company's tax years 2016 through 2019 generally remain open to examination by the major taxing jurisdictions to which the Company is subject. The Company is not currently under examination by any other taxing jurisdiction.

12. Subsequent Events

The Company has assessed events occurring subsequent to September 30, 2020, for potential recognition and disclosure in the financial statements. The outbreak of COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on global economic and financial markets, including on the Company's customers and their End Users, its partners and suppliers, its employees and its business generally. Given the significant uncertainties surrounding these continuing impacts, management cannot estimate at this time the long-term impacts of COVID-19 on the Company or the markets it serves.

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

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. You can identify these statements by words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "should," "will," "strategy," "future," "likely," or "would" or the negative of these terms or similar expressions. These statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control, including the recent COVID-19 outbreak and the associated efforts to limit the spread of the disease. All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Factors that may cause such differences include, but are not limited to, the risks described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission, or the SEC.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and in our other SEC filings, including the audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2019, which are included in our Annual Report on Form 10-K, filed with the SEC on February 21, 2020.

Overview

We are a leading provider of secure, cloud-based digital solutions that transform the ways in which traditional and emerging financial services providers engage with account holders and end users, or End Users. We sell our solutions to financial institutions, alternative finance and leasing companies, or Alt-FIs, and financial technology companies, or FinTechs. Our solutions enable our customers to deliver robust suites of digital banking, lending, leasing, and banking as a service, or BaaS, services that make it possible for End Users to transact and engage anytime, anywhere and on any device. Our solutions are often the most frequent point of engagement between our customers and their End Users. As such, we purpose-build our solutions to deliver compelling and consistent End User experiences across digital channels and to drive the success of our customers by optimizing their digital brands and enhancing End User acquisition, retention and engagement.

The effective delivery and management of secure and advanced digital solutions in the complex and heavily-regulated financial services industry requires significant resources, personnel and expertise. We provide digital solutions that are designed to be highly configurable, scalable and adaptable to the specific needs of our customers. We design and develop our solutions with an open platform approach intended to provide comprehensive integration among our solution offerings and our customers' internal and third-party systems. This integrated approach allows our customers to deliver unified and robust financial experiences across digital channels. Our solutions provide our customers the flexibility to configure their digital services in a manner that is consistent with each customer's specific workflows, processes and controls. Our solutions also allow our customers to personalize the digital experiences they deliver to their End Users by extending their individual services and brand requirements across digital channels. Our solutions and our data center infrastructure and resources are also designed to comply with the stringent security and technical regulations applicable to financial institutions and financial services providers and to safeguard our customers and their End Users.

We began by providing digital banking solutions to domestic regional and community financial institutions, or RCFIs, with the mission of empowering them to leverage technology to compete more effectively and to strengthen the communities and End Users they serve. To date, a substantial majority of our revenues continue to come from sales of our digital banking platform to RCFIs, and we continue to be focused on our founding mission of building stronger communities by strengthening their financial institutions. However, the continued proliferation and ubiquity of mobile and tablet devices and End Users'

increasing expectations for digital services have driven increases in the number of providers, greater fragmentation of financial services markets and a broadening set of new and innovative digital services, creating challenges and opportunities in the markets served by financial institutions as well as emerging providers such as Alt-FIs and FinTechs. End Users increasingly expect to transact and engage with financial services providers anytime, anywhere and on any device, and seamlessly across devices. End Users also select digital solutions based on the quality and intuitiveness of the digital user experience.

Financial institutions, Alt-FIs and FinTechs are seeking to address these challenges and opportunities and capture End User engagement by providing new, innovative digital financial services, solutions and experiences. Traditional financial services providers such as banks and credit unions are experiencing reduced End User engagement in their physical branches and increased End User engagement with their digital services and thus, they are increasing their investment in digital services. Emerging providers such as Alt-FIs and FinTechs are leveraging their digital focus and expertise and capitalizing on increased End User demand for digital financial services by creating new and expanding existing digital service offerings. This combined investment by traditional and emerging financial services providers is driving further competition, segmentation and innovation.

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 revenues are derived from customers which host our solutions in their own data centers under term license and maintenance agreements. Our digital banking platform customers have numerous End Users, and those End Users can represent one or more consumer or commercial users registered on our digital banking platform, or Registered Users, on our solutions. We generally price our digital banking platform solutions based on the number of solutions purchased by our customers and the number of Registered Users utilizing our solutions. We generally earn additional revenues from our digital banking platform customers based on the number of transactions that Registered Users perform on our solutions in excess of the levels included in our standard subscription fee. As a result, our revenues from digital banking platform customers 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. The structure and terms of the arrangements for our newer lending and leasing and BaaS solutions are varied, but we generally sell these solutions on a subscription basis through our direct sales organization, and the related revenues are recognized over the terms of the customer agreements.

We have achieved significant growth since our inception. During each of the past eight years, our average number of Registered Users per installed customer on our digital banking platform, or Installed Customer, has grown, and we have been able to sell additional solutions to existing customers. Our revenues per Installed Customer and per Registered User vary period-to-period based on the length and timing of customer implementations, changes in the average number of Registered Users per customer, sales of additional solutions to existing customers, changes in the number of transactions on our solutions by Registered Users and variations among existing customers and new customers with respect to the mix of purchased solutions and related pricing. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Operation Measures" for additional detail on how we define "Installed Customers" and "Registered Users."

The COVID-19 pandemic creates significant risks and uncertainties for our customers, their End Users, our partners and suppliers, our employees and our business generally. However, we believe that these events could accelerate the transition to digital financial solutions and that our portfolio of digital financial services solutions and our position and reputation in the market provide us with an opportunity to continue to serve clients and grow our business. We are being cautious as a result of the uncertainties and risks posed by the COVID-19 pandemic and in response to these uncertainties for the short term we have reduced our hiring plans for 2020 and are limiting hiring and other investments mainly to essential support, delivery and infrastructure roles. In the long term, and subject to more certainty regarding the COVID-19 pandemic, we remain committed to continuing to strategically invest across our organization to position us to increase revenues and to improve operating efficiencies. We are also considering how our physical facilities requirements might change when we eventually return to increased onsite operations, including the costs associated with ensuring a safe work environment and the likely increased prevalence of working from home for many employees. The timing and amount of these investments will vary based on the rate at which we expect to add new customers or sell additional solutions to existing customers, our customer retention rates, the implementation and support needs of our customers, our software development plans, our technology and physical infrastructure requirements, and changes thereto resulting from the COVID-19 pandemic, and other needs of our organization (including needs resulting from the COVID-19 pandemic). 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 digital banking platform customers in the longer term will improve our margins. However, we do not have any control or influence over whether End Users of our digital banking platform elect to become Registered Users of our customers' digital banking services.

We sell our solutions primarily through our professional sales organization. While the financial institutions market is well-defined due to the regulatory classifications of those financial institutions, the Alt-FI and FinTech markets are broader and more difficult to define due to the changing number of providers in each market. Subject to the risks and uncertainties posed by the COVID-19 pandemic, over the long term, we intend to continue to invest in additional sales representatives to identify and address the financial institution, Alt-FI and FinTech markets across the U.S. and internationally and 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 have continuously invested in expanding and improving our digital banking platform since its introduction in 2005, and we currently intend to continue investing both organically and inorganically through acquisitions to expand our portfolio. Over the past five years we have acquired or developed new solutions and additional functions that serve a broader range of needs of financial institutions as well as the needs of Alt-FIs and FinTechs. In addition to our acquisitions of Cloud Lending Inc., or Cloud Lending, and Gro Solutions, Inc., or Gro, in 2018 and our acquisitions of Centrix and Social Money in 2015, on October 31, 2019 we completed our acquisition of Lender Performance Group, LLC, or PrecisionLender. PrecisionLender is a provider of data-driven sales enablement, pricing and portfolio management solutions for financial institutions globally. Our solutions now include a broad range of services and experiences including commercial banking, regulatory and compliance, digital lending and leasing, BaaS, digital account opening and data-driven sales enablement and portfolio management solutions both in the U.S. and internationally.

We believe that financial services providers are best served by a broad, integrated portfolio of digital solutions that provide rapid, flexible and comprehensive integration with internal and third-party systems allowing them to provide modern, intuitive digital financial services in a secure, regulatory-compliant manner. We also believe that the breadth and depth of our solution offerings across the financial institution, Alt-FI and FinTech markets, our open and flexible platform approach, our position as a leading provider of digital banking solutions to a large network of RCFIs, and our expertise in delivering new, innovative, secure and regulatory-compliant digital solutions uniquely position us in the market for digital financial services solutions. We currently intend to increase investments in technology innovation and software development as we enhance our solutions and platforms and increase or expand the number of solutions that we offer.

We believe that delivery of consistent, high-quality customer support is a significant driver of purchasing and renewal decisions of our prospects and customers. 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 our customers succeed and who are knowledgeable with respect to the regulated and complex nature of the financial services industry. As our business grows, we currently intend to continue to invest in and grow our services and delivery organization to support our customers' needs and maintain our reputation.

Recent Events

Global health concerns with respect to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have caused significant disruption to the macroeconomic environment, and the pandemic has significantly increased economic uncertainty and reduced economic activity, including consumer and business spending. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments unknown and unpredictable at this time, including the duration, severity and spread of the pandemic, related restrictions on travel and transportation and other actions that may be taken by governmental authorities, the impact to our customers, their End Users, our suppliers and partners, and other items identified under "Risk Factors" below. There are no comparable recent events that provide guidance as to the impacts that the spread of COVID-19 may have, and, as a result, the ultimate impacts of the pandemic are highly uncertain and subject to change.

We have for many years maintained a business continuity plan and a pandemic plan, which we regularly test and update as needed. Based on the information available to us to date, we believe we have taken an informed, proactive and effective approach to addressing the direct known effects of the COVID-19 pandemic on us, our customers and other third parties on which we rely.

In late February, we implemented enhanced sanitation efforts at our locations, including more strict cleaning protocols for common surfaces and additional hand sanitization stations across our locations. In early March, we indefinitely suspended all non-essential, work-related domestic and international travel, instituted two-week self-quarantines for any employees who had recently traveled prior to the suspension, and implemented protocols for employees to report personal health situations which resemble COVID-19. By early March, over 90% of our employees had transitioned to working remotely from home and by mid-March virtually every one of our employees had transitioned to working remotely from home. We have now implemented strict protocols for any employee to enter any of our facilities, including the approval of senior management, advance health screening for COVID-19 symptoms and strict social distancing requirements while onsite. As of the filing date of this quarterly report on Form 10-Q, we continue to operate with essentially every employee working remotely, except for minimal essential

functions requiring facility access from time to time, only if required, in compliance with such protocols, and we currently plan to remain operating virtually at least through the remainder of 2020. We also modified our annual client conference to be a virtual event, which we hosted in multiple segments from April to June 2020. We have similarly cancelled all in-person aspects of our contemplated spring 2021 client conference and are currently evaluating to what extent we may hold the conference either virtually or later in the year. In addition, we have performed additional due diligence with critical vendors and other third parties on which we rely to assess their responses to the COVID-19 pandemic and impacts on their operations and services. To date, we have not experienced any material adverse impacts from any of our vendors or other third parties on which we rely. We intend to continue to conduct enhanced due diligence on such vendors and third parties for the foreseeable future as the uncertainty caused by the COVID-19 pandemic continues to persist.

We believe that to date our business continuity and pandemic plans are operating effectively and that we have been able to operate and provide services to our customers under the circumstances. As of the date of this quarterly report on Form 10-Q, we do not yet have firm plans on when or how we will transition back to onsite operations across our facilities, but we continue to monitor the situation closely and to plan accordingly. To date, we believe our corporate culture, business model, customer relations, and technology and information technology infrastructure have allowed our employees to substantially perform their roles while working remotely. However, in response to the uncertainties presented by the COVID-19 pandemic, we have reduced our hiring plans for 2020 and are limiting hiring and other investments mainly to essential support, delivery and infrastructure roles. We are also considering how our physical facilities requirements might change when we eventually return to increased onsite operations, including the costs associated with ensuring a safe work environment and the likely increased prevalence of working from home for many employees.

We also have conducted an extensive outreach to our customers and many prospective customers to assess their needs in the face of the COVID-19 pandemic and to seek to identify ways that we may assist them with our solutions and services. We believe the impacts of COVID-19 on our existing and prospective customers present both challenges and opportunities. While we believe the pandemic will increase the importance and prominence of digital financial solutions, the increased economic uncertainty and reduced economic activity, including consumer and business spending, is resulting in delays in certain purchasing decisions and implementations. For example, we are able to deliver our solutions remotely. However, the COVID-19 pandemic and its related restrictions have caused challenges for financial institutions to execute in-branch operations which makes executing more complex projects, such as implementations of new technology solutions, more difficult. Further, we have experienced and expect to continue to experience delays in some implementations and the associated revenue recognition as our customers focus on other initiatives in response to the COVID-19 pandemic and manage their own operations in light of the pandemic. We also have experienced and expect to continue to experience certain customers requesting reduced or extended payment terms to assist them with cost reduction measures as a result of the COVID-19 pandemic, which we intend to make conditional on associated contract extensions to offset the impact of the reduced payments. Accordingly, we expect the impacts of COVID-19 to have a negative impact on our bookings, revenues, gross margins and cash flows from operations for so long as such conditions persist.

Although at this time we are unable to predict the extent or duration of such impacts, our bookings, in particular with respect to new customer agreements, have been and we anticipate will continue to be adversely impacted. We believe this delay in bookings has been and will continue to be most significant (relative to our expectations prior to the COVID-19 pandemic) with respect to our data-driven sales enablement and portfolio management lending solutions particularly with respect to enterprise customers, because the target customers for these solutions have focused their internal resources on responding to the COVID-19 pandemic, including by providing loans through government stimulus programs such as the federal "Paycheck Protection Program." Further, with recent increases in COVID-19 cases in Europe and corresponding additional shelter-in-place and similar restrictions, we expect to see a continued negative impact in the near term on bookings from the sale of our digital lending and leasing solutions to European-based customers. We have experienced a less significant overall bookings impact (relative to our expectations prior to the COVID-19 pandemic) with respect to our digital banking solutions. We have, however, experienced a significant slowing of net new customer deals, partially offset by an increase in cross sales of additional features and functionality to our existing customer base due to the increased utilization and demand for digital banking solutions caused by the decreased in-branch operations resulting from the COVID-19 pandemic. During the quarter ended June 30, 2020, the negative impact to bookings and revenue from the sale of our Cloud Lending digital lending and leasing solutions was significantly offset by our sales and implementation of new offerings of these solutions designed to facilitate loans under the "Paycheck Protection Program" and similar government stimulus programs in the U.S. and abroad. We did not experience similar benefits to revenues or bookings from stimulus programs in the quarter ended September 30, 2020 and do not currently expect any similar future revenues or bookings impacts related to stimulus programs or benefits. Given the uncertainty that still surrounds the COVID-19 pandemic and the November 2020 election, we are expecting sales performance across all our solutions to continue to be slower than normal during the quarter ended December 31, 2020 and for the foreseeable future. However, based on feedback we have received from our existing and prospective customers and observations from our sales team after operating for over seven months during the COVID-19 pandemic, we believe we will begin to see improvements in the predictability of purchasing decisions and implementations by customers, and a corresponding gradual increase in bookings,

beginning in the quarter ending December 31, 2020 and continuing through the first half of 2021, although at this time we are unable to predict the extent of such improvement. However, the duration and impacts of the COVID-19 pandemic continue to be highly unpredictable and may continue to disrupt any seasonality trends that may otherwise typically be inherent in our historical operating results.

Despite these challenges among financial institutions, the usage by End Users of digital financial solutions has never been higher, and we are making additional investments to enhance our technology infrastructure to support this heightened usage. We have seen increased online banking activity as a result of shelter-in-place and similar orders as well as spikes in usage as End Users check accounts for such things as government stimulus funds.

We believe the challenges and opportunities posed by the COVID-19 pandemic have and will continue to cause financial institutions to increase their focus on maintaining and improving their digital financial services offerings. For example, government stimulus programs enacted in response to the COVID-19 pandemic, such as the federal "Paycheck Protection Program," provide financial institutions with additional revenue opportunities. To assist our customers with these loans, our Q2 Cloud Lending team designed and delivered a Paycheck Protection Program solution designed to help our financial institution customers perform the entire Paycheck Protection Program loan application and disbursement process digitally.

Key Operating Measures

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

Installed Customers

We define Installed Customers as the number of customers on our digital banking platform from which we are currently recognizing revenues. The average size of our Installed Customers, measured in both Registered Users per Installed Customer and revenues per Installed Customer, has increased over time as our existing Installed Customers continue to add Registered Users and buy more solutions from us, and as we add larger RCFIs to our Installed Customer base. The net rate at which we add Installed Customers varies based on our implementation capacity, the size and unique needs of our customers, the readiness of our customers to implement our solutions, and customer attrition, including as a result of merger and acquisition activity among financial institutions. While we believe the COVID-19 pandemic will increase the importance and prominence of digital financial solutions and that our portfolio of digital financial services solutions and our position and reputation in the market provide us with an opportunity to continue to serve clients and grow our business, the increased economic uncertainty and reduced economic activity resulting from the pandemic, including consumer and business spending, is resulting in delays in certain purchasing decisions and implementations, which we anticipate will slow the rate at which we add new Installed Customers over the next several months. We had 414, 401 and 382 Installed Customers on our digital banking platform as of December 31, 2019, 2018 and 2017, respectively.

Registered Users

We define a Registered User as an individual related to an account holder of an Installed Customer on our digital banking platform who has registered to use one or more of our solutions and has current access to use those solutions as of the last day of the reporting period presented. We price our digital banking platform 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 digital banking platform 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 End Users. We add new Registered Users through both organic growth from existing customers and from the addition of End Users from new Installed Customers. We believe the COVID-19 pandemic will increase the importance and prominence of digital financial solutions, which may result in increased registration of new End Users with existing customers; however, the increased economic uncertainty and reduced economic activity, including consumer and business spending, also is resulting in delays in certain purchasing decisions and implementations, that may slow the rate at which we add new Installed Customers and with them, new Registered Users from such customers. Accordingly, at this time we are unable to predict the anticipated impact of the COVID-19 pandemic on the growth in our number of Registered Users. Our Installed Customers had approximately 14.6 million, 12.8 million and 10.4 million Registered Users as of December 31, 2019, 2018 and 2017, respectively. Registered Users at September 30, 2020 were 17.1 million compared to 14.1 million at September 30, 2019.

Revenue Retention Rate

We believe that our ability to retain our 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, excluding any revenues from solutions of businesses acquired during such year, from customers who were implemented on any of our solutions as of December 31 of the prior year, expressed as a percentage of the total revenues during the prior year from the same group of customers. Our revenue retention rate provides insight into the impact on current year revenues of: the number of new customers implemented on any of our solutions during the prior year; the timing of our implementation of those new customers in the prior year; growth in the number of End Users on such solutions and changes in their usage of such solutions; sales of new products and services to our existing customers during the current year, excluding any products or services resulting from businesses acquired during such 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 are implemented. 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. We believe the COVID-19 pandemic will create incentives for our existing customers to purchase additional features to support the increase in demand for digital banking; however, the increased economic uncertainty and reduced economic activity, including consumer and business spending, also is resulting in delays in certain purchasing decisions and implementations and customer decisions with respect to contract extensions, which may adversely affect our revenue retention rate. We also have and could continue to experience contract terminations with customers who become insolvent as a result of the COVID-19 pandemic. Accordingly, at this time we are unable to predict the anticipated impact of the COVID-19 pandemic on our revenue retention rate. Our use of revenue retention rate has limitations as an analytical tool, and investors should not consider it in isolation. Other companies in our industry may calculate revenue retention rate differently, which reduces its usefulness as a comparative measure. Our revenue retention rate was 120%, 114% and 122% for the years ended December 31, 2019, 2018 and 2017, respectively.

Churn

We utilize churn to monitor the satisfaction of our customers and evaluate the effectiveness of our business strategies. We define churn as the amount of any monthly recurring revenue losses due to 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. We believe the COVID-19 pandemic will create incentives for our existing customers to purchase additional features to support the increase in demand for digital banking; however, the increased economic uncertainty and reduced economic activity, including consumer and business spending, is resulting in delays in certain purchasing decisions and implementations and customer decisions with respect to contract extensions and also may result in certain downgrades and cancellations from existing customers, each of which may adversely affect our churn. For example, we have experienced certain customers requesting reduced or extended payment terms to assist them with cost reduction measures as a result of the COVID-19 pandemic, which we intend to make conditional on associated contract extensions to offset the impact of the reduced payments. We also have and could continue to experience contract terminations with customers who become insolvent as a result of the COVID-19 pandemic. Accordingly, at this time we are unable to predict the anticipated impact of the COVID-19 pandemic on our churn. Our annual churn has ranged from 5.1% to 3.5% over the last eight years, and we had annual churn of 5.1%, 5.0% and 4.9% for the years ended December 31, 2019, 2018 and 2017, 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.

Non-GAAP Financial Measures

In addition to financial measures prepared in accordance with GAAP, we use certain non-GAAP financial measures to clarify and enhance our understanding, and aid in the period-to-period comparison, of our performance. We believe that these non-GAAP financial measures provide supplemental information that is meaningful when assessing our operating performance because they exclude the impact of certain amounts that our management and board of directors do not consider part of core operating results when assessing our operational performance, allocating resources, preparing annual budgets and determining compensation. Accordingly, these non-GAAP financial measures may provide insight to investors into the motivation and decision-making of management in operating the business. Set forth in the tables below are the corresponding GAAP financial measures for each non-GAAP financial measure. Investors are encouraged to review the reconciliation of each of these non-GAAP financial measures to its most comparable GAAP financial measure included below. While we believe that these non-GAAP financial measures provide useful supplemental information, non-GAAP financial measures have limitations and should

not be considered in isolation from, or as a substitute for, their most comparable GAAP measures. These non-GAAP financial measures are not prepared in accordance with GAAP, do not reflect a comprehensive system of accounting and may not be comparable to similarly titled measures of other companies due to potential differences in their financing and accounting methods, the book value of their assets, their capital structures, the method by which their assets were acquired and the manner in which they define non-GAAP measures. Items such as the amortization of intangible assets, stock-based compensation expense, acquisition related adjustments, deferred revenue reduction from purchase accounting, restructuring charges and partnership termination charges can have a material impact on our GAAP financial results.

Non-GAAP Revenue

We define non-GAAP revenue as total revenue excluding the impact of PrecisionLender purchase accounting. We monitor these measures to assess our performance because we believe our revenue growth rates would be understated without these adjustments. We believe presenting non-GAAP revenue aids in the comparability between periods and in assessing our overall operating performance.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue:				
GAAP revenue	\$ 103,804	\$ 79,702	\$ 293,765	\$ 228,644
Deferred revenue reduction from purchase accounting	957	—	3,720	—
Total Non-GAAP revenue	<u>\$ 104,761</u>	<u>\$ 79,702</u>	<u>\$ 297,485</u>	<u>\$ 228,644</u>

Non-GAAP Operating Income

We provide non-GAAP operating income using non-GAAP revenue as discussed above and excluding such items as amortization of acquired intangible assets, stock-based compensation expense, acquisition related costs and restructuring charges. We believe these measures are useful for the following reasons:

- *Amortization of acquired intangible assets.* We provide non-GAAP information that excludes expenses related to purchased intangible assets associated with our acquisitions. We believe that eliminating this expense from our non-GAAP measures is useful to investors, because the amortization of acquired intangible assets can be inconsistent in amount and frequency and is significantly impacted by the timing and magnitude of our acquisition transactions, which also vary in frequency from period to period. Accordingly, we analyze the performance of our operations in each period without regard to such expenses.
- *Stock-based compensation.* We provide non-GAAP information that excludes expenses related to stock-based compensation. We believe that the exclusion of stock-based compensation expense provides for a better comparison of our operating results to prior periods and to our peer companies as the calculations of stock-based compensation vary from period to period and company to company due to different valuation methodologies, subjective assumptions and the variety of award types. Because of these unique characteristics of stock-based compensation, we exclude these expenses when analyzing the organization's business performance.
- *Acquisition related costs.* We exclude certain expense items resulting from our acquisitions, such as legal, accounting and consulting fees, changes in fair value of contingent consideration, and retention expense. We consider these adjustments, to some extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, acquisitions result in operating expenses that would not otherwise have been incurred by us in the normal course of our organic business operations. We believe that providing these non-GAAP measures that exclude acquisition related costs, allows users of our financial statements to better review and understand the historical and current results of our continuing operations, and also facilitates comparisons to our historical results and results of less acquisitive peer companies, both with and without such adjustments.
- *Unoccupied lease charges.* We provide non-GAAP information that excludes restructuring charges related to the estimated costs of exiting and terminating facility lease commitments, as they relate to our corporate restructuring and exit activities. These charges are inconsistent in amount and are significantly impacted by the timing and nature of these events. Therefore, although we may incur these types of expenses in the future, we believe that eliminating these charges for purposes of calculating the non-GAAP financial measures facilitates a more meaningful evaluation of our operating performance and comparisons to our past operating performance.
- *Partnership termination charges.* In the quarter ending June 30, 2020, in connection with the termination of a strategic partnership, we agreed to pay a termination fee of \$5.6 million in May 2020 and \$7.6 million in the third quarter of

2021. We are excluding the charges associated with this partnership termination as they are non-recurring in nature and would not otherwise have been incurred by us in the normal course of our organic business operations. We believe that providing these non-GAAP measures that exclude partnership termination charges allows users of our financial statements to better review and understand the historical and current results of our continuing operations, and also facilitates comparisons to our historical results and results of peer companies, both with and without such adjustments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
GAAP operating loss	\$ (19,847)	\$ (13,394)	\$ (79,357)	\$ (44,888)
Deferred revenue reduction from purchase accounting	957	—	3,720	—
Partnership termination charges	—	—	13,244	—
Stock-based compensation	11,596	10,070	36,915	28,535
Acquisition related costs	1,062	2,784	714	7,550
Amortization of acquired technology	5,255	1,941	16,184	5,514
Amortization of acquired intangibles	4,465	912	13,447	3,032
Unoccupied lease charges	1,468	244	2,136	244
Non-GAAP operating income (loss)	\$ 4,956	\$ 2,557	\$ 7,003	\$ (13)

Adjusted EBITDA

We define adjusted EBITDA as net loss before depreciation, amortization, stock-based compensation, certain costs related to our recent acquisitions, (benefit from) provision for income taxes, interest and other (income) expense, net, deferred revenue reduction from purchase accounting, partnership termination charges, and unoccupied lease charges. We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results for the following reasons:

- adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;
- our management uses adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, in the preparation of our annual operating budget, as a measure of our operating performance, to assess the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance;
- adjusted EBITDA provides more consistency and comparability with our past financial performance, facilitates period-to-period comparisons of our operations and also facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and
- our investor and analyst presentations include adjusted EBITDA as a supplemental measure of our overall operating performance.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Reconciliation of net loss to adjusted EBITDA:				
Net loss	\$ (26,720)	\$ (18,569)	\$ (99,799)	\$ (55,211)
Deferred revenue reduction from purchase accounting	957	—	3,720	—
Partnership termination charges	—	—	13,244	—
Stock-based compensation	11,596	10,070	36,915	28,535
Acquisition related costs	1,062	2,784	714	7,550
Depreciation and amortization	12,929	5,932	38,975	17,728
Unoccupied lease charges	1,468	244	2,136	244
(Benefit from) provision for income taxes	116	(31)	621	(307)
Interest and other (income) expense, net	6,727	5,157	19,586	10,508
Adjusted EBITDA	\$ 8,135	\$ 5,587	\$ 16,112	\$ 9,047

Components of Operating Results

Revenues

Revenue-generating activities directly relate to the sale, implementation and support of our solutions within a single operating segment. We derive the majority of our revenues from subscription fees for the use of our solutions hosted in either our data centers or with cloud-based services, transaction revenue from bill-pay solutions, and revenues for customer support and implementation services related to our solutions. We recognize the corresponding revenues over time on a ratable basis over the customer agreement term. A small portion of our revenues are derived from customers which host and manage our solutions on-premises or in third-party data centers under term license and maintenance agreements. We recognize the software license revenue once the customer obtains control of the license and the remaining arrangement consideration for maintenance revenue over time on a ratable basis over the term of the software license.

Subscription fees are based on the number of solutions purchased by our customers, the number of End Users using the solutions and the number of bill-pay and certain other transactions those users conduct using our solutions in excess of the levels included in our standard subscription fee. Subscription fees are billed monthly, quarterly, or annually and are recognized monthly over the term of our customer agreements. The initial term of our digital banking platform agreements averages over five years, although it varies by customer. The structure and terms of the arrangements for our newer lending and leasing and BaaS solutions are varied, but we generally sell these solutions on a subscription basis through our direct sales organization, and the related revenues are recognized over the terms of the customer agreements. We begin recognizing subscription fees when the control of the service transfers to the customer, generally when the solution is implemented and made available to the customer. The timing of our implementations varies period-to-period based on our implementation capacity, the number of solutions purchased by our customers, the size and unique needs of our customers and the readiness of our customers to implement our solutions. We recognize any related implementation services revenues ratably over the initial customer agreement term beginning on the date we commence recognizing subscription fees. Contract asset balances arise primarily when we provide services in advance of billing for those services. Amounts that have been invoiced but not paid are recorded in accounts receivable or other long-term assets, depending on the timing of expected billing, and in revenues or deferred revenues, depending on when control of the service transfers to the customer.

Global health concerns with respect to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have caused significant disruption to the macroeconomic environment, and the pandemic has significantly increased economic uncertainty and reduced economic activity, including consumer and business spending. Although we believe the pandemic could accelerate the transition to digital financial solutions and that our portfolio of digital financial services solutions and our position and reputation in the market provide us with an opportunity to continue to serve clients and grow our business, as a result of the economic and operational impact of the pandemic on our customers, our bookings, in particular with respect to new customer agreements, have been and we anticipate will continue to be adversely impacted as a result of the COVID-19 pandemic, although at this time we are unable to predict the extent or duration of such impact. We believe this delay in bookings has been and will continue to be most significant (relative to our expectations prior to the COVID-19 pandemic) with respect to our data-driven sales enablement and portfolio management lending solutions particularly with respect to enterprise customers, because the target customers for these solutions have focused their internal resources on responding to the COVID-19 pandemic, including by providing loans through government stimulus programs such as the

federal "Paycheck Protection Program." Further, with recent increases in COVID-19 cases in Europe and corresponding additional shelter-in-place and similar restrictions, we expect to see a continued negative impact in the near term on bookings from the sale of our digital lending and leasing solutions to European-based customers. We have experienced a less significant overall bookings impact (relative to our expectations prior to the COVID-19 pandemic) with respect to our digital banking solutions. We have, however, experienced a significant slowing of net new customer deals, partially offset by an increase in cross sales of additional features and functionality to our existing customer base due to the increased utilization and demand for digital banking solutions caused by the decreased in-branch operations resulting from the COVID-19 pandemic. During the quarter ended June 30, 2020, the negative impact to bookings and revenue from the sale of our Cloud Lending digital lending and leasing solutions was significantly offset by our sales and implementation of new offerings of these solutions designed to facilitate loans under the "Paycheck Protection Program" and similar government stimulus programs in the U.S. and abroad. We did not experience similar benefits to revenues or bookings from stimulus programs in the quarter ended September 30, 2020 and do not currently expect any similar future revenues or bookings impacts related to stimulus programs or benefits. Given the uncertainty that still surrounds the COVID-19 pandemic and the November 2020 election, we are expecting sales performance across all our solutions to continue to be slower than normal during the quarter ended December 31, 2020 and for the foreseeable future. However, based on feedback we have received from our existing and prospective customers and observations from our sales team after operating for over seven months during the COVID-19 pandemic, we believe we will begin to see improvements in the predictability of purchasing decisions and implementations by customers, and a corresponding gradual increase in bookings, beginning in the quarter ending December 31, 2020 and continuing through the first half of 2021, although at this time we are unable to predict the extent of such improvement. However, the duration and impacts of the COVID-19 pandemic continue to be highly unpredictable and may continue to disrupt any seasonality trends that may otherwise typically be inherent in our historical operating results. We also have experienced and expect to continue to experience delays in some implementations and the associated revenue recognition as our customers focus on other initiatives in response to the COVID-19 pandemic and manage their own operations in light of the pandemic. We have experienced and expect to continue to experience certain customers requesting reduced or extended payment terms to assist them with cost reduction measures as a result of the COVID-19 pandemic, which we intend to make conditional on associated contract extensions to offset the impact of the reduced payments. Accordingly, we expect the impacts of COVID-19 to have a negative impact on our revenues, gross margins and cash flows from operations for so long as such conditions persist. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the duration, severity and spread of the pandemic, related restrictions on travel and transportation and other actions that may be taken by governmental authorities, the impact to the business of our suppliers or customers, and other items identified under "Risk Factors" below, all of which are uncertain and cannot be predicted. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change.

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 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, cloud-based hosting services, an allocation of general overhead costs, the amortization of acquired technology, and referral fees. We allocate general overhead expenses to all departments based on the number of employees in each department, which we consider to be a fair and representative means of allocation.

We capitalize certain personnel costs directly related to the implementation of our solutions to the extent those costs are recoverable from future revenues. We amortize the costs for an implementation once revenue recognition commences, and we amortize those implementation costs to cost of revenues over the expected period of customer benefit, which has been determined to be the estimated life of the technology. Other costs not directly recoverable from future revenues are expensed in the period incurred.

We capitalize certain software development costs related to programmers, software engineers and quality control teams working on our software solutions. We have commenced amortization of capitalized costs in which products have reached general release. Capitalized software development costs are computed on an individual product basis and products available for market are amortized to cost of revenues over the products' estimated economic lives.

We intend to continue to increase our investments in our implementation and customer support teams and technology infrastructure to serve our customers and support our growth, including potential incremental investments to address the impacts of the COVID-19 pandemic on our operations. Over the long term, 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, including during periods where revenues are lower or implementations are delayed due to the effects of the COVID-19 pandemic.

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. They also include costs related to our acquisitions and the resulting amortization of acquired intangible assets from those acquisitions. Over the long term, 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. However, in response to the uncertainties presented by the COVID-19 pandemic, in the short term we have reduced our hiring plans for 2020 and are limiting hiring and other investments mainly to essential support, delivery and infrastructure roles. Due to shelter-in-place and similar government orders, nearly all of our employees are working remotely from home and we have suspended all non-essential business travel and conference participation, including cancelling in-person attendance at our own customer conference typically held in April and instead holding it virtually. As a result, certain costs associated with operating physical locations and facilitating employee travel will be reduced during periods when such restrictive measures are in place, although we may incur additional costs necessary to facilitate and support a remote workforce for an extended period of time. As of the filing date of this quarterly report on Form 10-Q, we plan to remain operating virtually at least through the remainder of 2020.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and other personnel-related costs, including commissions, employee benefits, bonuses and stock-based compensation. Sales and marketing expenses also include expenses related to advertising, lead generation, promotional event programs, corporate communications, travel and allocated overhead.

Sales and marketing expenses as a percentage of total revenues will change in any given period based on several factors including the addition of newly-hired sales professionals, the number and timing of newly-installed customers and the amount of sales commissions expense amortized related to those customers, including during periods where revenues are lower or implementations are delayed due to the effects of the COVID-19 pandemic. Commissions are generally capitalized and then amortized over the expected period of customer benefit.

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 employee 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.

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

General and Administrative

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

Acquisition Related Costs

Acquisition related costs include compensation expenses related to milestone provisions and retention agreements with certain former shareholders and employees of acquired businesses, which are recognized as earned, changes in fair value of the contingent consideration related to potential acquisition earnout payments and various legal and professional service expenses incurred in connection with the acquisitions, which are recognized when incurred.

Amortization of Acquired Intangibles

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

Partnership Termination Charges

Partnership termination charges represent the fees paid related to termination of a strategic partnership during the quarter ended June 30, 2020. These charges are non-recurring in nature and would not otherwise have been incurred by us in the normal course of our organic business operations.

Unoccupied Lease Charges

Unoccupied lease charges include costs related to the early vacating of certain facilities, partially offset by anticipated sublease income from the associated facilities.

Total Other Income (Expense), Net

Total other income (expense), net, consists primarily of interest income and expense and loss on disposal of long-lived assets. We earn interest income on our cash, cash equivalents and investments. Interest expense consists primarily of the interest from the amortization of debt discount, issuance costs, and coupon interest attributable to our convertible notes issued in February 2018, or 2023 Notes, and our convertible notes issued in June 2019, or 2026 Notes, as well as fees and interest associated with the letter of credit issued to our landlord for the security deposit for our corporate headquarters.

Benefit from (Provision for) Income Taxes

As a result of our current net operating loss position, current income tax expenses and benefits consist primarily of state income taxes, deferred income tax expenses relating to the tax amortization of recently acquired goodwill, and income tax expense from foreign operations.

Results of Operations

Condensed Consolidated Statements of Comprehensive Loss Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues ⁽¹⁾	\$ 103,804	\$ 79,702	\$ 293,765	\$ 228,644
Cost of revenues ⁽²⁾⁽³⁾	57,366	40,447	163,676	117,683
Gross profit	46,438	39,255	130,089	110,961
Operating expenses:				
Sales and marketing ⁽³⁾	18,403	15,700	54,597	47,371
Research and development ⁽³⁾	23,568	19,617	72,168	56,392
General and administrative ⁽³⁾	17,563	13,418	53,876	41,357
Acquisition related costs ⁽⁴⁾	818	2,758	(22)	7,453
Amortization of acquired intangibles	4,465	912	13,447	3,032
Partnership termination charges	—	—	13,244	—
Unoccupied lease charges ⁽⁵⁾	1,468	244	2,136	244
Total operating expenses	66,285	52,649	209,446	155,849
Loss from operations	(19,847)	(13,394)	(79,357)	(44,888)
Total other income (expense), net	(6,757)	(5,206)	(19,821)	(10,630)
Loss before income taxes	(26,604)	(18,600)	(99,178)	(55,518)
Benefit from (provision for) income taxes	(116)	31	(621)	307
Net loss	\$ (26,720)	\$ (18,569)	\$ (99,799)	\$ (55,211)

⁽¹⁾ Includes deferred revenue reduction from purchase accounting of \$1.0 million and \$3.7 million for the three and nine months ended September 30, 2020, respectively.

⁽²⁾ Includes amortization of acquired technology of \$5.3 million and \$1.9 million for the three months ended September 30, 2020 and 2019, respectively, and \$16.2 million and \$5.5 million for the nine months ended September 30, 2020 and 2019, respectively.

⁽³⁾ Includes stock-based compensation expense as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	\$ 2,110	\$ 1,478	\$ 7,422	\$ 4,454
Sales and marketing	2,209	2,060	6,353	5,462
Research and development	2,901	2,598	9,780	7,083
General and administrative	4,376	3,934	13,360	11,536
Total stock-based compensation expense	\$ 11,596	\$ 10,070	\$ 36,915	\$ 28,535

⁽⁴⁾ The nine months ended September 30, 2020 includes a \$2.9 million reduction to estimated contingent consideration as a result of the actual contingent consideration calculated as of the final measurement date of March 31, 2020.

⁽⁵⁾ Unoccupied lease charges include costs related to the early vacating of various facilities, partially offset by anticipated sublease income from these facilities. For the three and nine months ended September 30, 2020, the charges related to facilities in California, North Carolina, and Texas, and for the three and nine months ended September 30, 2019, the charges related to facilities in Georgia.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues ⁽¹⁾	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues ⁽²⁾⁽³⁾	55.3	50.7	55.7	51.5
Gross profit	44.7	49.3	44.3	48.5
Operating expenses:				
Sales and marketing ⁽³⁾	17.7	19.7	18.6	20.7
Research and development ⁽³⁾	22.7	24.6	24.6	24.7
General and administrative ⁽³⁾	16.9	16.8	18.3	18.1
Acquisition related costs ⁽⁴⁾	0.8	3.5	—	3.3
Amortization of acquired intangibles	4.3	1.1	4.6	1.3
Partnership termination charges	—	—	4.5	—
Unoccupied lease charges ⁽⁵⁾	1.4	0.3	0.7	0.1
Total operating expenses	63.9	66.1	71.3	68.2
Loss from operations	(19.1)	(16.8)	(27.0)	(19.6)
Total other income (expense), net	(6.5)	(6.5)	(6.7)	(4.6)
Loss before income taxes	(25.6)	(23.3)	(33.8)	(24.3)
Benefit from (provision for) income taxes	(0.1)	—	(0.2)	0.1
Net loss	(25.7)%	(23.3)%	(34.0)%	(24.1)%

⁽¹⁾ Includes deferred revenue reduction from purchase accounting of 0.9% and 1.3% for the three and nine months ended September 30, 2020, respectively.

⁽²⁾ Includes amortization of acquired technology of 5.1% and 2.4% for the three months ended September 30, 2020 and 2019, respectively, and 5.5% and 2.4% for the nine months ended September 30, 2020 and 2019, respectively.

⁽³⁾ Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	2.0 %	1.9 %	2.5 %	1.9 %
Sales and marketing	2.1	2.6	2.2	2.4
Research and development	2.8	3.3	3.3	3.1
General and administrative	4.2	4.9	4.5	5.0
Total stock-based compensation expense	11.2 %	12.6 %	12.6 %	12.5 %

⁽⁴⁾ The nine months ended September 30, 2020 includes a 1.0% reduction to estimated contingent consideration as a result of the actual contingent consideration calculated as of the final measurement date of March 31, 2020.

⁽⁵⁾ Unoccupied lease charges include costs related to the early vacating of various facilities, partially offset by anticipated sublease income from these facilities. For the three and nine months ended September 30, 2020, the charges related to facilities in California, North Carolina, and Texas, and for the three and nine months ended September 30, 2019, the charges related to the facilities in Georgia.

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

Comparison of the Three and Nine Months Ended September 30, 2020 and 2019

Revenues

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Revenues	\$ 103,804	\$ 79,702	\$ 24,102	30.2 %	\$ 293,765	\$ 228,644	\$ 65,121	28.5 %

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Revenues increased by \$24.1 million, or 30.2%, from \$79.7 million for the three months ended September 30, 2019 to \$103.8 million for the three months ended September 30, 2020. This increase in revenue was primarily attributable to a \$16.2 million increase from the sale of additional solutions to new and existing customers and growth in Registered Users from new and existing customers. In addition, \$5.7 million of the increase was generated from the business acquired in the fourth quarter of 2019, and \$2.2 million of the increase was generated from an increase in the number of transactions processed using our solutions.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Revenues increased by \$65.1 million, or 28.5%, from \$228.6 million for the nine months ended September 30, 2019 to \$293.8 million for the nine months ended September 30, 2020. This increase in revenue was primarily attributable to a \$43.1 million increase from the sale of additional solutions to new and existing customers and growth in Registered Users from new and existing customers. In addition, \$14.8 million of the increase was generated from the business acquired in the fourth quarter of 2019, \$5.2 million of the increase was generated from an increase in the number of transactions processed using our solutions, and \$2.0 million of the increase was generated from our "Paycheck Protection Program" solutions as a result of successfully funded applications during the nine months ended September 30, 2020.

Cost of Revenues

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Cost of revenues	\$ 57,366	\$ 40,447	\$ 16,919	41.8 %	\$ 163,676	\$ 117,683	\$ 45,993	39.1 %
Percentage of revenues	55.3 %	50.7 %			55.7 %	51.5 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Cost of revenues increased by \$16.9 million, or 41.8%, from \$40.4 million for the three months ended September 30, 2019 to \$57.4 million for the three months ended September 30, 2020. This increase was attributable to a \$6.1 million increase in personnel costs due to an increase in the number of personnel who provide implementation and customer support and maintain our data centers and other technical infrastructure, which included a \$1.3 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$0.6 million increase in stock-based compensation expense allocated to cost of revenues for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. In addition, there was a \$3.9 million increase in co-location facility costs and depreciation for our data center assets resulting from the increased infrastructure necessary to support our growing customer base, a \$3.3 million increase from amortization of acquired customer technology resulting from the business acquired in the fourth quarter of 2019, a \$1.9 million increase in third-party costs related to intellectual property included in our solutions and transaction processing costs incurred as a result of the increase in Registered Users from new and existing customers, as well as implementation and support personnel expenses that are reimbursable from our customers, a \$1.1 million increase from amortization of capitalized implementation services as a result of customer go lives during the three months ended September 30, 2020, a \$0.6 million increase in overhead costs which were allocated to our implementation and support departments, and a \$0.4 million increase in other discretionary expenses. These increases were partially offset by a decrease in travel-related expenses of \$0.4 million due to significantly reduced travel as a result of the COVID-19 pandemic.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Cost of revenues increased by \$46.0 million, or 39.1%, from \$117.7 million for the nine months ended September 30, 2019 to \$163.7 million for the nine months ended September 30, 2020. This increase was attributable to a \$19.2 million increase in personnel costs due to an increase in the number of personnel who provide implementation and customer support and maintain our data centers and

other technical infrastructure, which included a \$4.0 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$2.9 million increase in stock-based compensation expense allocated to cost of revenues for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. In addition, there was a \$10.7 million increase from amortization of acquired customer technology resulting from the business acquired in the fourth quarter of 2019, a \$6.6 million increase in co-location facility costs and depreciation for our data center assets resulting from the increased infrastructure necessary to support our growing customer base, a \$4.7 million increase in third-party costs related to intellectual property included in our solutions and transaction processing costs incurred as a result of the increase in Registered Users from new and existing customers, as well as implementation and support personnel expenses that are reimbursable from our customers, a \$2.4 million increase from amortization of capitalized implementation services as a result of customer go lives during the nine months ended September 30, 2020, a \$2.1 million increase in overhead costs which were allocated to our implementation and support departments, and a \$1.1 million increase in other discretionary expenses. These increases were partially offset by a decrease in travel-related expenses of \$0.8 million due to significantly reduced travel as a result of the COVID-19 pandemic.

We defer certain personnel and other costs directly related to the implementation of our solutions to the extent those costs are 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 expected period of customer benefit. Additionally, we invest in personnel, business processes and systems infrastructure to standardize our business processes and drive future efficiency in our implementations, customer support and data center operations. We expect these investments will increase cost of revenues in absolute dollars as we continue to make investments in capacity and process improvement, including in response to the impacts on our operations of the COVID-19 pandemic.

Operating Expenses

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

Sales and Marketing

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Sales and marketing	\$ 18,403	\$ 15,700	\$ 2,703	17.2 %	\$ 54,597	\$ 47,371	\$ 7,226	15.3 %
Percentage of revenues	17.7 %	19.7 %			18.6 %	20.7 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Sales and marketing expenses increased by \$2.7 million, or 17.2%, from \$15.7 million for the three months ended September 30, 2019 to \$18.4 million for the three months ended September 30, 2020. This increase was primarily attributable to a \$3.1 million increase in personnel costs due to the growth of our sales and marketing organizations, which included a \$2.2 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$0.1 million increase in stock-based compensation expense allocated to sales and marketing expenses for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. In addition, there was a \$0.9 million increase in marketing expenses related to cancellation of all in-person aspects of our spring 2021 client conference due to the COVID-19 pandemic and a \$0.1 million increase in other overhead costs which were allocated to our sales and marketing departments, partially offset by a \$0.9 million decrease in travel-related expenses due to significantly reduced travel as a result of the COVID-19 pandemic and a \$0.5 million decrease in other discretionary expenses primarily related to reduced trade show activities and other events as a result of the COVID-19 pandemic.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Sales and marketing expenses increased by \$7.2 million, or 15.3%, from \$47.4 million for the nine months ended September 30, 2019 to \$54.6 million for the nine months ended September 30, 2020. This increase was primarily attributable to a \$10.7 million increase in personnel costs due to the growth of our sales and marketing organizations, which included a \$6.4 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$0.9 million increase in stock-based compensation expense allocated to sales and marketing expenses for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. In addition, there was a \$0.9 million increase in marketing expenses related to cancellation of all in-person aspects of our spring 2021 client conference due to the COVID-19 pandemic and a \$0.6 million increase in other overhead costs which were allocated to our sales and marketing departments. These increases were partially offset by a \$2.6 million decrease in other discretionary expenses primarily related to reduced

trade show activities and other events as a result of the COVID-19 pandemic and a \$2.4 million decrease in travel-related expenses due to significantly reduced travel as a result of the COVID-19 pandemic.

Research and Development

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Research and development	\$ 23,568	\$ 19,617	\$ 3,951	20.1 %	\$ 72,168	\$ 56,392	\$ 15,776	28.0 %
Percentage of revenues	22.7 %	24.6 %			24.6 %	24.7 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Research and development expenses increased by \$4.0 million, or 20.1%, from \$19.6 million for the three months ended September 30, 2019 to \$23.6 million for the three months ended September 30, 2020. This increase was primarily attributable to a \$4.3 million increase in personnel costs as a result of the growth in our research and development organization to support continued enhancements to our solutions, which included a \$2.6 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$0.4 million increase in stock-based compensation expense allocated to research and development expenses for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. Additionally, there was a \$0.2 million increase in facilities and other overhead costs which were allocated to our research and development departments. These increases were partially offset by a \$0.3 million decrease in travel-related and other discretionary expenses as a result of the COVID-19 pandemic and a \$0.2 million decrease as a result of increased capitalized software development costs.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Research and development expenses increased by \$15.8 million, or 28.0%, from \$56.4 million for the nine months ended September 30, 2019 to \$72.2 million for the nine months ended September 30, 2020. This increase was primarily attributable to a \$16.2 million increase in personnel costs as a result of the growth in our research and development organization to support continued enhancements to our solutions, which included a \$7.7 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$2.8 million increase in stock-based compensation expense allocated to research and development expenses for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. Additionally, there was a \$0.8 million increase in facilities and other overhead costs which were allocated to our research and development departments. These increases were partially offset by a \$0.7 million decrease in travel-related and other discretionary expenses as a result of the COVID-19 pandemic and a \$0.5 million decrease as a result of increased capitalized software development 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, as we believe existing customers will have an increased focus on maintaining and improving their digital banking offerings, including functionality such as digital account opening and online lending. In particular, government stimulus programs enacted in response to the COVID-19 pandemic, including the Paycheck Protection Program, also have provided our financial institution customers with additional opportunities to originate and manage small business loans. To assist financial institutions with processing and managing these loans, our Q2 Cloud Lending team designed, developed and delivered a paycheck protection program solution designed to help our financial institution customers perform the entire paycheck protection program loan application and disbursement process digitally.

General and Administrative

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
General and administrative	\$ 17,563	\$ 13,418	\$ 4,145	30.9 %	\$ 53,876	\$ 41,357	\$ 12,519	30.3 %
Percentage of revenues	16.9 %	16.8 %			18.3 %	18.1 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. General and administrative expenses increased by \$4.1 million, or 30.9%, from \$13.4 million for the three months ended September 30, 2019 to \$17.6 million for the three months ended September 30, 2020. The increase in general and administrative expenses was primarily attributable to a \$2.4 million increase in personnel costs to support the growth of our business, which included a \$0.8

million increase in personnel costs from the business acquired in the fourth quarter of 2019, and a \$0.4 million increase in stock-based compensation expense allocated to general and administrative expenses for the increase in the number of stock-based awards vested during the period and the fair value of the awards granted due to the variance in our stock price. In addition, there was a \$0.8 million increase in expenses, in which we used savings from decreased office expenses and travel, to assist employees and enhance their remote working experience, a \$0.6 million increase in overhead costs which were allocated to our general and administrative departments, a \$0.2 million increase in discretionary spending, a \$0.2 million increase in bad debt expense due to additional estimated credit losses from the adoption of ASU 2016-13, and a \$0.2 million increase in professional services for legal and compliance fees. These increases were partially offset by a \$0.3 million decrease in travel-related expenses due to significantly reduced travel as a result of the COVID-19 pandemic.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. General and administrative expenses increased by \$12.5 million or 30.3%, from \$41.4 million for the nine months ended September 30, 2019 to \$53.9 million for the nine months ended September 30, 2020. The increase in general and administrative expenses was primarily attributable to a \$6.7 million increase in personnel costs to support the growth of our business, which included a \$2.9 million increase in personnel costs from the business acquired in the fourth quarter of 2019, and 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 vested during the period and the fair value of the awards granted due to the variance in our stock price. In addition, there was a \$1.9 million increase in overhead costs which were allocated to our general and administrative departments, a \$1.3 million increase in professional services for legal and compliance fees, a \$1.3 million increase in bad debt expense due to additional estimated credit losses from the adoption of ASU 2016-13, a \$0.8 million increase in expenses, in which we used savings from decreased office expenses and travel, to assist employees and enhance their remote working experience, a \$0.2 million increase in discretionary spending, and a \$0.5 million increase for price concessions given to customers related to isolated delivery issues of certain of our solutions. These increases were partially offset by a \$0.3 million decrease in travel-related expenses due to significantly reduced travel as a result of the COVID-19 pandemic.

General and administrative expenses consist primarily of salaries and other personnel-related costs of our administrative, finance and accounting, information systems, legal and human resources employees. General and administrative expenses also include costs to comply with regulations governing public companies, costs of directors' and officers' liability insurance, investor relations activities and costs to comply with Section 404 of the Sarbanes-Oxley Act, or SOX. Over the long term, we anticipate that general and administrative expenses will continue to increase in absolute dollars as we continue to incur both increased external audit fees as well as additional spending to ensure continued regulatory and SOX compliance. In the near term, we anticipate that these investments will increase general and administrative expenses as a percentage of revenues as we experience slower than anticipated revenue growth as a result of the COVID-19 pandemic. We expect such expenses to decline as a percentage of our revenues over the longer term as our revenues grow.

Acquisition Related Costs

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Acquisition related costs	\$ 818	\$ 2,758	\$ (1,940)	(70.3)%	\$ (22)	\$ 7,453	\$ (7,475)	(100.3)%
Percentage of revenues	0.8 %	3.5 %			— %	3.3 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Acquisition related costs decreased by \$1.9 million, or 70.3%, from \$2.8 million for the three months ended September 30, 2019 to \$0.8 million for the three months ended September 30, 2020. Acquisition related costs for the three months ended September 30, 2020 included \$0.8 million of compensation expense related to the retention bonuses for employees of companies acquired in the fourth quarter of 2018 and the fourth quarter of 2019. Acquisition related costs for the three months ended September 30, 2019 was comprised of a \$1.4 million adjustment to the fair value of the contingent consideration related to the acquisition of Cloud Lending, \$1.0 million in legal, professional services, and other costs associated with the acquisition of PrecisionLender and \$0.3 million of compensation expense related to the retention bonuses for employees of companies acquired in 2018.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Acquisition related costs decreased by \$7.5 million, or 100.3%, from \$7.5 million for the nine months ended September 30, 2019 to a net positive adjustment of \$0.02 million for the nine months ended September 30, 2020. The amount for the nine months ended September 30, 2020 included a \$2.9 million negative adjustment to the value of the contingent consideration related to the acquisition of Cloud Lending which was consummated in October 2018 based on actual achievement, partially offset by \$2.6 million of compensation expense related to the retention bonuses for employees of companies acquired in the fourth quarter of 2018 and

the fourth quarter of 2019 and \$0.3 million of additional legal, professional services and other costs, while acquisition related costs for the nine months ended September 30, 2019 was comprised of a \$4.9 million adjustment to the fair value of the contingent consideration related to the acquisition of Cloud Lending, \$1.5 million of compensation expense related to the retention bonuses for employees of companies acquired in 2018, and \$1.0 million in legal, professional services, and other costs associated with the acquisition of PrecisionLender.

Amortization of Acquired Intangibles

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Amortization of acquired intangibles	\$ 4,465	\$ 912	\$ 3,553	389.6 %	\$ 13,447	\$ 3,032	\$ 10,415	343.5 %
Percentage of revenues	4.3 %	1.1 %			4.6 %	1.3 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Amortization of acquired intangibles increased by \$3.6 million, or 389.6%, from \$0.9 million for the three months ended September 30, 2019 to \$4.5 million for the three months ended September 30, 2020 as a result of the intangible assets recorded from the business acquired in the fourth quarter of 2019. The acquired intangible assets are also related to our business combinations in 2018 and 2015 as well as our asset purchase in 2017. These amounts are amortized on a straight-line basis over the estimated useful lives of the related assets.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Amortization of acquired intangibles increased by \$10.4 million, or 343.5%, from \$3.0 million for the nine months ended September 30, 2019 to \$13.4 million for the nine months ended September 30, 2020 as a result of the intangible assets recorded from the business acquired in the fourth quarter of 2019. The acquired intangible assets are also related to our business combinations in 2018 and 2015 as well as our asset purchase in 2017. These amounts are amortized on a straight-line basis over the estimated useful lives of the related assets.

Unoccupied Lease Charges

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Unoccupied lease charges	\$ 1,468	\$ 244	\$ 1,224	501.6 %	\$ 2,136	\$ 244	\$ 1,892	775.4 %
Percentage of revenues	1.4 %	0.3 %			0.7 %	0.1 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Unoccupied lease charges increased by \$1.2 million, or 501.6%, from \$0.2 million for the three months ended September 30, 2019 to \$1.5 million for the three months ended September 30, 2020. During the three months ended September 30, 2020, the charges included costs related to the early vacating of facilities in North Carolina and Texas, partially offset by anticipated sublease income from these facilities. During the three months ended September 30, 2019, the charges included costs related to the early vacating of facilities in Georgia, partially offset by anticipated sublease income from these facilities.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Unoccupied lease charges increased by \$1.9 million, or 775.4%, from \$0.2 million for the nine months ended September 30, 2019 to \$2.1 million for the nine months ended September 30, 2020. During the nine months ended September 30, 2020, the charges included costs related to the early vacating of facilities in California, North Carolina, and Texas, partially offset by anticipated sublease income from these facilities. During the nine months ended September 30, 2019, the charges included costs related to the early vacating of facilities in Georgia, partially offset by anticipated sublease income from these facilities.

Total Other Income (Expense), Net

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Total other income (expense), net	\$ (6,757)	\$ (5,206)	\$ (1,551)	(29.8)%	\$ (19,821)	\$ (10,630)	\$ (9,191)	(86.5)%
Percentage of revenues	(6.5)%	(6.5)%			(6.7)%	(4.6)%		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Total other income (expense), net represented a net expense of \$6.8 million for the three months ended September 30, 2020 compared to a net expense of \$5.2 million for the three months ended September 30, 2019. Interest expense for the three months ended September 30, 2020 consisted of \$7.0 million from the amortization of debt discount, issuance costs, and coupon interest attributable to our convertible notes issued in February 2018 and June 2019, and other interest expense, partially offset by \$0.3 million of interest income earned on cash, cash equivalents and investments, while the interest expense for the three months ended September 30, 2019 consisted of \$6.4 million of interest expense from the amortization of debt discount, issuance costs, and coupon interest attributable to our convertible notes issued in February 2018 and a loss on disposal of long-lived assets of \$0.1 million, partially offset by \$1.3 million of interest income earned on cash, cash equivalents, and investments.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Total other income (expense), net represented a net expense of \$19.8 million for the nine months ended September 30, 2020 compared to a net expense of \$10.6 million for the nine months ended September 30, 2019. Interest expense for the nine months ended September 30, 2020 consisted of \$20.6 million from the amortization of debt discount, issuance costs, and coupon interest attributable to our convertible notes issued in February 2018 and June 2019, and other interest expense and a \$0.2 million loss on foreign currency translation, partially offset by \$1.0 million of interest income earned on cash, cash equivalents and investments, while the interest expense for the nine months ended September 30, 2019 consisted of \$13.2 million of interest expense from the amortization of debt discount, issuance costs, and coupon interest attributable to our convertible notes issued in February 2018 and a loss on disposal of long-lived assets of \$0.3 million, partially offset by \$3.0 million of interest income earned on cash, cash equivalents, and investments.

Benefit from (provision for) income taxes

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	(%)	2020	2019	\$	(%)
Benefit from (provision for) income taxes	\$ (116)	\$ 31	\$ (147)	(474.2)%	\$ (621)	\$ 307	\$ (928)	(302.3)%
Percentage of revenues	(0.1)%	— %			(0.2)%	0.1 %		

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019. Total benefit from (provision for) income taxes represented an expense of \$0.1 million for the three months ended September 30, 2020 compared to a benefit of \$0.03 million for the three months ended September 30, 2019. As a result of our current net operating loss position, current income tax expenses for the three months ended September 30, 2020 consist primarily of federal income taxes of \$0.2 million relating to the tax amortization of recently acquired goodwill and \$0.1 million in income tax expense from foreign operations, partially offset by \$0.2 million in income tax benefit relating to unrecognized tax benefits. The income tax benefit for the three months ended September 30, 2019 consisted primarily of income tax benefit from foreign operations.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019. Total benefit from (provision for) income taxes represented an expense of \$0.6 million for the nine months ended September 30, 2020 compared to a benefit of \$0.3 million for the nine months ended September 30, 2019. As a result of our current net operating loss position, current income tax expenses for the nine months ended September 30, 2020 consist primarily of federal income taxes of \$0.9 million relating to the tax amortization of recently acquired goodwill, \$0.2 million in income tax expense from foreign operations, and \$0.1 million in state income tax expense, partially offset by \$0.6 million in income tax benefits, which consist primarily of \$0.4 million relating to foreign tax reserves and \$0.2 million relating to unrecognized tax benefits. The income tax benefit for the nine months ended September 30, 2019 consisted primarily of state income tax benefit of \$0.5 million relating to the Texas R&D credit, partially offset by \$0.2 million in income tax expense from foreign operations.

Seasonality and Quarterly Results

Our overall operating results fluctuate from quarter to quarter as a result of a variety of factors, including the timing of investments in growing our business. The timing of our implementation activities and corresponding revenues from new customers are subject to fluctuation based on the timing of our sales. Historically, sales have tended to be lower in the first quarter of each year than in subsequent quarters but any resulting impact on our results of operation has been difficult to measure due to the timing of our implementations and overall growth in our business. The timing of our implementations also varies period-to-period based on our implementation capacity, the number of solutions purchased by our customers, the size and unique needs of our customers and the readiness of our customers to implement our solutions.

Global health concerns with respect to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have caused significant disruption to the macroeconomic environment, and the pandemic has significantly increased economic uncertainty and reduced economic activity, including consumer and business spending. As a result, although at this time we are unable to predict the extent or duration of such impact, our bookings, in particular with respect to new customer agreements, have been and we anticipate will continue to be adversely impacted as a result of the COVID-19 pandemic, which will negatively impact future revenues and disrupt any seasonality that may otherwise typically be seen in our operating results. We believe this delay in bookings has been and will continue to be most significant (relative to our expectations prior to the COVID-19 pandemic) with respect to our data-driven sales enablement and portfolio management lending solutions particularly with respect to enterprise customers, because the target customers for these solutions have focused their internal resources on responding to the COVID-19 pandemic, including by providing loans through government stimulus programs such as the federal "Paycheck Protection Program." Further, with recent increases in COVID-19 cases in Europe and corresponding additional shelter-in-place and similar restrictions, we expect to see a continued negative impact in the near term on bookings from the sale of our digital lending and leasing solutions to European-based customers. We have experienced a less significant overall bookings impact (relative to our expectations prior to the COVID-19 pandemic) with respect to our digital banking solutions. We have, however, experienced a significant slowing of net new customer deals, partially offset by an increase in cross sales of additional features and functionality to our existing customer base due to the increased utilization and demand for digital banking solutions caused by the decreased in-branch operations resulting from the COVID-19 pandemic. During the quarter ended June 30, 2020, the negative impact to bookings and revenue from the sale of our Cloud Lending digital lending and leasing solutions was significantly offset by our sales and implementation of new offerings of these solutions designed to facilitate loans under the "Paycheck Protection Program" and similar government stimulus programs in the U.S. and abroad. We did not experience similar benefits to revenues or bookings from stimulus programs in the quarter ended September 30, 2020 and do not currently expect any similar future revenues or bookings impacts related to stimulus programs or benefits. Given the uncertainty that still surrounds the COVID-19 pandemic and the November 2020 election, we are expecting sales performance across all our solutions to continue to be slower than normal during the quarter ended December 31, 2020 and for the foreseeable future. However, based on feedback we have received from our existing and prospective customers and observations from our sales team after operating for over seven months during the COVID-19 pandemic, we believe we will begin to see improvements in the predictability of purchasing decisions and implementations by customers, and a corresponding gradual increase in bookings, beginning in the quarter ending December 31, 2020 and continuing through the first half of 2021, although at this time we are unable to predict the extent of such improvement. However, the duration and impacts of the COVID-19 pandemic continue to be highly unpredictable. We also have experienced and expect to continue to experience delayed implementations as a result of the COVID-19 pandemic, as our customers focus on other initiatives in response to the COVID-19 pandemic and manage their own operations in light of the pandemic. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the duration, severity and spread of the pandemic, related restrictions on travel and transportation and other actions that may be taken by governmental authorities, the impact to the business of our suppliers or customers, and other items identified under "Risk Factors" below, all of which are uncertain and cannot be predicted. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change and may have an unusual impact on any seasonal trends we may have experienced in the past.

Our solutions are often the most frequent point of engagement between our customers and their End Users. As a result, we and our customers are very deliberate and careful in our implementation activities to help ensure a successful roll-out of the solutions to End Users and increase the registration of new End Users. Unusually long or short implementations, for even a small number of customers, may result in short-term quarterly variability in our results of operations.

Our quarterly results of operations may vary significantly in the future, including as a result of the impact of the COVID-19 pandemic, and period-to-period comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future results.

Liquidity and Capital Resources

Sources of Liquidity

We have financed our operations primarily through the proceeds from the issuance of common stock in our initial public offering in March 2014, and additional registered common stock offerings, including our May 2020 and June 2019 common stock offerings, cash flows from operations, our February 2018 convertible note offering, and our June 2019 convertible note offering. As of September 30, 2020, our principal sources of liquidity were cash, cash equivalents and investments of \$396.1 million. We have experienced and expect to continue to experience certain customers requesting reduced or extended payment terms to assist them with cost reduction measures as a result of the COVID-19 pandemic, which we intend to make conditional on associated contract extensions to offset the impact of the reduced payments. Accordingly, we expect the impacts of COVID-19 to have a negative impact on our revenues, gross margins and cash flows from operations. In response to the uncertainties presented by the COVID-19 pandemic, we have reduced our hiring plans for 2020 and are limiting hiring and other investments mainly to essential support, delivery and infrastructure roles. We are also considering how our physical facilities requirements might change when we eventually return to increased onsite operations, including the costs associated with ensuring a safe work environment and the likely increased prevalence of working from home for many employees. Based upon our current levels of operations, and our current expectations regarding the impacts of COVID-19 on our operations and financial performance, we believe that our cash flow from operations along with our other sources of liquidity are adequate to meet our cash requirements for the next twelve months. However, if we experience further reductions in our cash flow from operations due to any of the risk factors identified under, but not limited to, "Risk Factors" below, including any further impacts related to COVID-19, we may need to further adjust our capital, operating and other discretionary spending to realign our working capital requirements with the capital resources available to us. Additionally, if we determine the need for additional short-term liquidity, there is no assurance that such financing, if pursued and obtained, would be adequate or on terms acceptable to us.

Cash Flows

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

	Nine Months Ended September 30,	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ (21,979)	\$ (1,328)
Investing activities	(15,939)	20,627
Financing activities	303,027	473,853
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>\$ 265,109</u>	<u>\$ 493,152</u>

Cash Flows from Operating Activities

Cash used in operating activities is primarily influenced by the amount and timing of customer receipts and vendor payments, fair value re-measurement related to contingent earnout payment liabilities and by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business and increase in the number of installed customers.

For the nine months ended September 30, 2020, our net cash and cash equivalents used in operating activities were \$22.0 million, which consisted of a net loss of \$99.8 million and cash outflows from changes in operating assets and liabilities of \$32.9 million, partially offset by non-cash adjustments of \$110.8 million. Cash outflows were the result of a \$28.5 million increase in deferred solution and implementation costs due to our increased customer growth and new and existing customers undergoing implementations during the period, a \$20.3 million increase in accounts receivable due to the timing of annual billings at the end of the current quarter, a \$5.4 million decrease in accounts payable and accrued liabilities due to timing of payments in support of our expanding customer base and related growth in our technical infrastructure and payment of annual bonuses during the first quarter, a \$4.2 million increase in contract assets, and a \$2.6 million increase in prepaid and other current assets related to timing of various prepaid expenses. Cash outflows were partially offset by cash inflows resulting from a \$19.1 million increase in deferred revenue due to increased payments and deposits received from customers prior to the recognition of revenue from those related payments, a \$5.6 million increase in other long-term liabilities, and a \$3.4 million decrease in other long-term assets primarily from amortization of our right-of-use assets. Non-cash items consisted primarily of \$39.0 million of depreciation and amortization expense due to growth in our fixed assets and acquired intangible assets, \$38.1 million of stock-based compensation expense, \$16.8 million in amortization of the 2023 Notes and 2026 Notes discounts and related debt issuance costs, \$13.9 million of amortization of deferred implementation and deferred solution and other costs, \$2.1 million of unoccupied lease charges and \$0.8 million of other non-cash items.

For the nine months ended September 30, 2019, our net cash and cash equivalents used in operating activities were \$1.3 million, which consisted of a net loss of \$55.2 million and cash outflows from changes in operating assets and liabilities of \$14.5 million, partially offset by non-cash adjustments of \$68.4 million. Cash outflows were the result of a \$26.8 million increase in deferred solution and implementation costs due to our increased customer growth and new and existing customers undergoing implementations during the period, a \$4.8 million increase in accounts receivable due to the timing of billings at the end of the current quarter, a \$3.9 million increase in contract assets, a \$2.0 million decrease in other long-term liabilities, and a \$1.9 million increase in prepaid and other current assets related to various prepaid expenses. Cash inflows were the result of a \$11.8 million increase in deferred revenue due to increased payments and deposits received from customers prior to the recognition of revenue from those related payments, an \$8.8 million increase in accounts payable and accrued liabilities due to timing of payments in support of our expanding customer base and related growth in our technical infrastructure, and a \$4.4 million decrease in other long-term assets. Non-cash items consisted primarily of \$29.4 million of stock-based compensation expense, \$17.7 million of depreciation and amortization expense due to growth in our fixed assets and acquired intangible assets, \$11.2 million in amortization of the 2023 Notes and 2026 Notes, or the Convertible Notes, discounts and related debt issuance costs, \$9.7 million of amortization of deferred implementation and deferred solution and other costs, and \$0.4 million of other non-cash items.

Although we believe the pandemic could accelerate the transition to digital financial solutions and that our portfolio of digital financial services solutions and our position and reputation in the market provide us with an opportunity to continue to serve clients and grow our business, as a result of the economic and operational impact of the pandemic on our customers, our bookings, in particular with respect to new customer agreements, have been and we anticipate will continue to be adversely impacted as a result of the COVID-19 pandemic, although at this time we are unable to predict the extent or duration of such impact. We believe this delay in bookings has been and will continue to be most significant (relative to our expectations prior to the COVID-19 pandemic) with respect to our data-driven sales enablement and portfolio management lending solutions particularly with respect to enterprise customers, because the target customers for these solutions have focused their internal resources on responding to the COVID-19 pandemic, including by providing loans through government stimulus programs such as the federal "Paycheck Protection Program." Further, with recent increases in COVID-19 cases in Europe and corresponding additional shelter-in-place and similar restrictions, we expect to see a continued negative impact in the near term on bookings from the sale of our digital lending and leasing solutions to European-based customers. We have experienced a less significant overall bookings impact (relative to our expectations prior to the COVID-19 pandemic) with respect to our digital banking solutions. We have, however, experienced a significant slowing of net new customer deals, partially offset by an increase in cross sales of additional features and functionality to our existing customer base due to the increased utilization and demand for digital banking solutions caused by the decreased in-branch operations resulting from the COVID-19 pandemic. We also have experienced and expect to continue to experience delayed implementations as a result of the COVID-19 pandemic as our customers focus on other initiatives in response to the COVID-19 pandemic and manage their own operations in light of the pandemic. We anticipate that reduced bookings, in particular for new customer agreements, will result in collection of fewer deposits that we typically collect from customers in advance of implementing our solutions for them and that delays in implementation will result in delays in our ability to invoice for and collect fees for our solutions. We also have experienced certain customers requesting reduced or extended payment terms to assist them with cost reduction measures as a result of the COVID-19 pandemic, which we intend to make conditional on associated contract extensions to offset the impact of the reduced payments. For these and other reasons, the impacts of the COVID-19 pandemic may have a significant adverse effect on our cash flows from operations.

Cash Flows from Investing Activities

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

For the nine months ended September 30, 2020, our net cash used in investing activities was \$15.9 million, consisting of \$23.6 million from purchases of investments, \$16.5 million for the purchase of property and equipment and \$0.7 million from capitalized software development costs, partially offset by \$24.9 million from maturities of investments.

For the nine months ended September 30, 2019, net cash provided by investing activities was \$20.6 million, consisting primarily of \$60.7 million from maturities of investments, partially offset by \$27.3 million for the purchase of investments, \$12.5 million for the purchase of property and equipment, and \$0.3 million from the purchase of intangible assets.

Cash Flows from Financing Activities

Our financing activities for the nine months ended September 30, 2020 and 2019 consisted primarily of our May 2020 and June 2019 common stock offerings, the payment of contingent consideration related to the acquisition of Cloud Lending which

was consummated in October 2018, our June 2019 convertible note offering, and net proceeds from exercises of options to purchase our common stock.

For the nine months ended September 30, 2020, net cash provided by financing activities of \$303.0 million was primarily due to the proceeds from the issuance of common stock of \$311.3 million, net of issuance costs, from the May 2020 common stock offering and \$8.6 million of cash received from the exercise of stock options, partially offset by the payment of contingent consideration related to the acquisition of Cloud Lending, of which \$16.9 million of the payment was estimated at acquisition date fair value and included in financing activities.

For the nine months ended September 30, 2019, net cash provided by financing activities of \$473.9 million was due to the issuance of \$307.0 million principal amount of the 2026 Notes, net of issuance costs, partially offset by the Capped Call transactions of \$40.8 million, and proceeds from the issuance of common stock of \$195.3 million, net of issuance costs, from the June 2019 common stock offering. In addition, cash flows from financing activities included \$12.3 million of net cash received from the exercise of stock options.

Contractual Obligations and Commitments

During the nine months ended September 30, 2020, and subsequent to September 30, 2020, except as noted below, there were no material changes to our contractual obligations and commitments disclosures as set forth under the caption, "Contractual Obligations and Commitments" in the Management's Discussion and Analysis of Financial Condition and Results of Operations, as reported in our Annual Report on Form 10-K, filed with the SEC on February 21, 2020. As of September 30, 2020, our total lease payment obligations were \$84.2 million, of which \$31.8 million was included in lease liabilities, net of current portion in our condensed consolidated balance sheets.

In the quarter ended June 30, 2020, in connection with the termination of a strategic partnership, we paid a termination fee of \$5.6 million in May 2020 with a remaining payment of \$7.6 million to be made in the third quarter of 2021. The unpaid portion of the termination fee was included in accrued liabilities in our condensed consolidated balance sheets as of September 30, 2020.

The following table summarizes our contractual obligations and commitments at September 30, 2020 (in thousands):

	Payment due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Convertible Notes, including interest	\$ 4,097	\$ 237,331	\$ 4,744	\$ 318,622	\$ 564,794
Operating lease obligations	9,878	23,960	21,559	28,786	84,183
Purchase commitments	27,943	29,094	297	—	57,334
	<u>\$ 41,918</u>	<u>\$ 290,385</u>	<u>\$ 26,600</u>	<u>\$ 347,408</u>	<u>\$ 706,311</u>

Off-Balance Sheet Arrangements

As of September 30, 2020, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)" which modifies the measurement of expected credit losses of certain financial instruments. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We adopted the standard effective January 1, 2020. The standard impacted our accounting for allowances for credit losses, available-for-sale debt securities and other assets subject to credit risk. Credit losses on trade and other receivables, contract assets, available-for-sale debt securities, and other instruments reflect our current estimate of the expected credit losses and generally result in the earlier recognition of allowance for losses. Adoption of the new standard resulted in the recording of a cumulative-effect adjustment to accumulated deficit of \$0.3 million on January 1, 2020. We will continue to actively monitor the impact of the recent COVID-19 pandemic on expected credit losses.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test and requires an entity to write down the carrying value of goodwill up to the amount by which the carrying amount of a reporting unit exceeds its fair value. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and early adoption is permitted for interim or annual goodwill impairment tests.

performed on testing dates after January 1, 2017. We adopted the standard effective January 1, 2020. There was no material impact on our financial position and results of operations based on the adoption of ASU 2017-04.

In August 2020, the FASB issued ASU No. 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)" which simplifies the accounting for convertible debt instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. In addition, the guidance eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. The standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We are currently evaluating the potential effects of this guidance on its consolidated financial statements.

Critical Accounting Policies and Estimates

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

- Revenue recognition;
- Contract balances;
- Accounts receivable;
- Deferred revenues;
- Deferred implementation costs;
- Deferred solution and other costs;
- Stock-based compensation;
- Convertible senior notes;
- Purchase price allocation, intangible assets and goodwill;
- Capitalization of software development costs;
- Leases;
- Contingent consideration; and
- Income taxes.

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

During the nine months ended September 30, 2020, there were no significant changes in our critical accounting policies or estimates which were included in the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2019, which are included in our Annual Report on Form 10-K, filed with the SEC on February 21, 2020.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

We have cash and cash equivalents held primarily in cash and money market funds. In addition, we have marketable securities which typically include U.S. government agency bonds, corporate bonds and commercial paper, and certificates of deposit. Cash and cash equivalents are held for working capital purposes. Marketable securities are held and invested with capital preservation as the primary objective. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Any declines in interest rates will reduce future interest income. As of September 30, 2020, we had an outstanding principal amount of \$546.2 million of 2023 Notes and 2026 Notes, which each have a fixed annual interest rate of 0.75%. If overall interest rates fell by 10% in 2020 or 2019, our interest income would not have been materially affected.

Foreign Currency Risk

During 2018, we commenced international operations. As a result, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. As of September 30, 2020, our most significant currency exposures were the Indian rupee, British pound, and Australian dollar. As of September 30, 2020, we had operating subsidiaries in India, the United Kingdom, and Australia. Due to the relatively low volume of payments made by us through these foreign subsidiaries, we do not believe we have significant exposure to foreign currency exchange risks. However, fluctuations in currency exchange rates could harm our results of operations in the future.

We currently do not use derivative financial instruments to mitigate foreign currency exchange risks. We will continue to review this matter and may consider hedging certain foreign exchange risks in future years.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to reduce its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Our business, prospects, financial condition, operating results and the trading price of our common stock could be materially adversely affected by any of the risks and uncertainties described below, as well as other risks not currently known to us or that are currently considered immaterial. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes.

Risks Related to Our Business

Uncertain and weakened economic conditions are adversely affecting our industry, business and results of operations, and the extent to which the COVID-19 pandemic and measures taken in response thereto may impact our business, results of operations, liquidity and financial condition is uncertain and difficult to predict.

Global health concerns stemming from the COVID-19 pandemic and related government actions have caused significant disruption to the global economic environment. The pandemic has significantly increased economic uncertainty and reduced economic activity, including consumer and business spending. In response to the pandemic, government authorities have implemented numerous measures to try to contain the spread of the disease, including travel bans and restrictions, quarantines, shelter-in-place or total lock-down orders and business limitations and shutdowns.

The COVID-19 pandemic is adversely impacting our customers and our business, but the extent of such impacts is highly uncertain and difficult to predict. While we believe that to date our business continuity and pandemic plans are operating effectively and that we have been able to operate and provide services to our customers under the circumstances, if we are not able to respond to and manage these impacts and related changes effectively, our business, results of operations, liquidity and financial condition will continue to be adversely impacted. Moreover, even after the pandemic has subsided, we may continue to experience materially adverse impacts to our business, results of operation and financial condition as a result of the virus' global economic impact, including reduced spending, lower economic activity and weakened banking and financial systems.

For example, the spread of COVID-19 has caused us to modify our business practices (including restricting employee travel, developing social distancing plans for our employees and cancelling physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities. Nearly all of our employees are currently working remotely and have been since early March 2020 due to government work and travel restrictions, and we currently plan to remain operating virtually at least through the remainder of 2020. These decisions may impair or delay our ability to sell our solutions, adversely impact our product development and harm productivity and collaboration. While we believe these actions were reasonable and necessary as a result of the COVID-19 pandemic, they have resulted in disruptions to our normal business operations.

In addition, the COVID-19 pandemic and the resulting weakening of the global economy, rapid increase in unemployment rates, declines in interest rates and reductions in business confidence and activity, have had a significant impact on our financial institution, Alt-FI and FinTech customers, as well as the End User businesses and individuals that utilize our customers' services. These conditions may affect the rate of technology spending and influence the timing of our customers' and prospective customers' technology purchasing and implementation decisions, which could adversely affect our customers' and prospective customers' ability or willingness to purchase our solutions, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions, negatively affect our renewal rates and churn or result in a decrease in the number of End Users of our solutions or the transactions performed using our solutions, each of which is difficult to predict and any of which could adversely affect our operating results and financial condition on both a short-term and long-term basis. For example, we have experienced and expect to continue to experience delayed implementations as a result of the COVID-19 pandemic as our customers focus on other initiatives in response to the COVID-19 pandemic and manage their own operations in light of the pandemic. In addition, while we believe the COVID-19 pandemic will increase the importance and prominence of digital financial solutions, likely resulting in increased registration of new End Users with existing Installed Customers and the retention of certain customers that may have otherwise not renewed their contracts, the increased economic uncertainty and

reduced economic activity, including consumer and business spending, is resulting in delays in certain purchasing decisions and implementations, which may delay bookings and our recognition of revenue. We believe this delay in bookings has been and will continue to be most significant (relative to our expectations prior to the COVID-19 pandemic) with respect to our data-driven sales enablement and portfolio management lending solutions particularly with respect to enterprise customers, because the target customers for these solutions have focused their internal resources on responding to the COVID-19 pandemic, including by providing loans through government stimulus programs such as the federal "Paycheck Protection Program." Further, with recent increases in COVID-19 cases in Europe and corresponding additional shelter-in-place and similar restrictions, we expect to see a continued negative impact in the near term on bookings from the sale of our digital lending and leasing solutions to European-based customers. We have experienced a less significant overall bookings impact (relative to our expectations prior to the COVID-19 pandemic) with respect to our digital banking solutions. We have, however, experienced a significant slowing of net new customer deals, partially offset by an increase in cross sales of additional features and functionality to our existing customer base due to the increased utilization and demand for digital banking solutions caused by the decreased in-branch operations resulting from the COVID-19 pandemic. During the quarter ended June 30, 2020, the negative impact to bookings and revenue from the sale of our Cloud Lending digital lending and leasing solutions was significantly offset by our sales and implementation of new offerings of these solutions designed to facilitate loans under the "Paycheck Protection Program" and similar government stimulus programs in the U.S. and abroad. We did not experience similar benefits to revenues or bookings from stimulus programs in the quarter ended September 30, 2020 and do not currently expect any similar future revenues or bookings impacts related to stimulus programs or benefits. Given the uncertainty that still surrounds COVID-19 and the November 2020 elections, we are expecting sales performance across all our solutions to be slower than normal during the quarter ended December 31, 2020 and for the foreseeable future. The impact of the COVID-19 pandemic also has and may continue to delay customer decisions with respect to contract extensions and may result in certain downgrades and cancellations from existing customers. For example, we have experienced and expect to continue to experience certain customers requesting reduced or extended payment terms to assist them with cost reduction measures as a result of the COVID-19 pandemic, which we intend to make conditional on associated contract extensions to offset the impact of the reduced payments. We also have and could continue to experience contract terminations with customers who become insolvent as a result of the COVID-19 pandemic.

Other factors related to the COVID-19 pandemic that may adversely impact our business operations include:

- challenges to our operations and our ability to meet customer service level commitments due to government shelter-in-place or other orders under which we are not able to provide certain customer-facing services remotely, which may cause potential loss of revenue or contractual penalties, as well as associated costs resulting from potential legal disputes regarding force majeure or other related contract defenses;
- service interruptions or impaired system performance due to failures of or delays in our systems or resources as a result of increased online banking activity related to End Users utilizing digital banking services while subject to government shelter-in-place or similar orders, or increased use of our solutions resulting from government stimulus programs;
- changes to our normal operations, including as a result of increased remote working and the possibility that one or more clusters of COVID-19 cases could occur at one of our locations, data centers or other third-party providers, affecting our employees or affecting the systems or employees of our customers or other third parties on which we depend;
- risks, including public and private litigation, based upon, arising out of or related to COVID-19 and our actions and responses thereto, including any actions that we may take in connection with re-opening our offices where permitted by local law;
- an increase in the volume of customer and regulatory requests for information and support; and
- increased cyber fraud risk related to increased online banking, e-commerce and other online activity.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material adverse effect on our results of operations, liquidity or financial condition and heighten many of the known risks with respect to our business and ownership of our securities, which are described further in this "Risk Factors" section.

We have experienced rapid growth in recent periods and if we fail to manage our growth effectively or experience a decline in our growth rate, 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 the types of solutions we sell and the customers we sell them to, expansion to international locations and international customers, expansion of our infrastructure, enhancement of our internal systems and other significant changes and additional complexities. Our revenues increased from \$194.0 million for the twelve months ended December 31, 2017 to \$241.1 million for the twelve months ended December 31, 2018, and \$315.5 million for the twelve months ended December 31, 2019. 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. In particular, with the increased economic uncertainty and reduced economic activity, including consumer and business spending, resulting from the COVID-19 pandemic, our growth rate is likely to decline, and may decline significantly. The duration and extent of the impact from COVID-19 on our growth rate depends on future developments that cannot be accurately predicted at this time. The growth in our business generally, our management of a growing workforce and international customer base 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. In addition, our increased focus on selling our solutions to larger customers and the increased breadth of our solution offerings and the types of customers we serve may result in greater uncertainty and variability in our business and sales results, particularly as the broader impacts of COVID-19 are felt across the global economy. We also will 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 and as we sell a broader range of solutions to a broader set of customers. Our success will depend on our ability to plan for and manage this growth effectively and to address challenges to our growth model resulting from rapid changes in economic conditions. 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 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.

The market for financial services has been dramatically changing, and we do not know whether financial institutions and traditional and emerging financial services providers will adopt or continue to adopt our existing and new solutions or whether the market will change in ways that we do not anticipate. In particular, the COVID-19 pandemic has significantly increased economic uncertainty and reduced economic activity, including consumer and business spending, which may result in decreased spending by financial institutions and traditional and emerging financial services providers for the foreseeable future.

Many financial institutions 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. For financial institutions, switching from one provider of solutions (or from an internally developed legacy system) to a new provider is a significant endeavor. Many potential customers believe switching providers involves too many potential disadvantages such as disruption of business operations, loss of accustomed functionality, and increased costs (including conversion and transition costs). Furthermore, some financial institutions 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 financial institutions to choose not to adopt cloud-based solutions such as ours or to adopt alternative solutions, either of which would harm our operating results. We attempt to overcome these concerns through value enhancing strategies such as a flexible integration process and continued investment in the enhanced functionality and features of our solutions. If financial institutions are unwilling to transition from their legacy systems, the demand for our 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 new solutions and enhanced solutions to our current and new customers. As we create new solutions and enhance our existing solutions to support new customer types, 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.

We derive substantially all of our revenues from customers in the financial services industry, and any downturn or consolidation in the financial services industry, or unfavorable economic conditions affecting regions in which a significant portion of our customers are concentrated or segments of potential customers on which we focus, could harm our business.

A significant portion of our revenues is 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 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. Any of these developments could have an adverse effect on our business, results of operations and financial condition.

In addition, any downturn in the financial services industry or unfavorable economic conditions affecting the regions in which our customers are concentrated or particular segments of customers on which we focus, including the economic uncertainty caused by COVID-19, may cause our customers to reduce their spending on solutions such as ours, seek to terminate or renegotiate their contracts with us or fail. While the negative impacts of the COVID-19 pandemic will affect the operations and spending decisions of customers across our target markets, we believe such uncertainty will in particular affect enterprise and larger financial institutions, including those with international operations. Additionally, a significant portion of our revenues is derived from RCFIs in states, in particular Texas, whose economies are substantially dependent upon the energy and natural resources market, in particular oil and gas exploration and production. Since 2014, the price of oil and gas has remained low, and has significantly decreased recently as a result of the global impacts of the COVID-19 pandemic and other geopolitical events, resulting in significant economic uncertainty in Texas and such other states. Should the price of oil and gas decline further or remain at the current low price for an extended period, the general economic conditions in Texas and such other states will be negatively affected, which could have a material adverse effect on our RCFI customers, and accordingly our business, results of operations, and financial condition.

Because we recognize revenues from our 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 digital banking platform 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. For example, any decrease in sales resulting from the economic effects of the COVID-19 pandemic may have a greater impact on our financial results in future periods than in the period in which the decrease occurs. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period.

Additionally, we recognize our expenses over varying periods based on the nature of the expense. In particular, we recognize a substantial 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. For example, any delays in our ability to complete previously planned implementations as a result of COVID-19 pandemic may result in significant fluctuations in our expenses in future periods.

As the number, size, type and complexity of customers that we serve increase and change, and as we alter our operations in response to the COVID-19 pandemic, 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. Additionally, as a result of the COVID-19 pandemic, nearly all of our employees, and many of the employees of our customers and third-party providers on which we depend, now perform their functions remotely. Our implementation expenses increase when customers have unexpected data, hardware or software technology challenges, or complex or unanticipated business or regulatory requirements. In addition, our customers typically require complex acceptance testing related to the implementation of our solutions. Implementation services will be more challenging when being performed by our employees remotely in conjunction with customers and third-party providers whose employees also may be working remotely. Implementation delays also may 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, including operational or staffing challenges related to the COVID-19 pandemic, our revenue recognition may be delayed. Losses of End 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.

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

Our business depends on our ability to satisfy our customers and meet their needs. Our customers use a variety of network infrastructure, hardware and software, which typically increases in complexity the larger the customer is, and our 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 or resources, including as a result of operational constraints or increased online banking activity triggered by government shelter-in-place or similar orders or demand related to government stimulus programs related to the COVID-19 pandemic, 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, or if we experience other defects with our solutions. 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 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 and related resources 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, subscribe to new or additional third-party hosting services, upgrade our technology and infrastructure or introduce new or enhanced solutions. It takes a significant amount of time to plan, develop and test changes to our solutions and related infrastructure and resources, 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 and related resources. 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 and related resources 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.

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 financial services providers. With respect to our digital banking platform, we have a number of point system competitors, including NCR Corporation, or NCR, First Data Corporation (acquired by Fiserv, Inc. in July 2019), D3 Technology, Inc. (acquired by NCR in July 2019), Alkami Technology, Inc. and Kony, Inc. (acquired by Temenos AG in September 2019) in the online, consumer and small business banking space and Finastra, ACI Worldwide, Inc. 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., or FIS. With respect to our lending and leasing platform, we compete against a number of point system competitors, including Abrigo, Baker Hill Solutions, LLC, Fair Isaac Corporation, nCino, Inc., Finastra, Moody's Analytics, Inc., Oracle Corporation, Temenos AG, and core processing vendors, including FIS and Fiserv. With respect to our BaaS solutions, due to the vast number of potential use cases and customer segments, the list of potential competitors is extremely broad and varied, but includes companies across the retail banking, financial services, transaction processing, consumer technology and financial technology services industries. 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 more funds on research and development. In the uncertain economic environment caused by COVID-19, many of our competitors may have greater liquidity and access to capital than we do and may respond to market conditions by lowering prices to compete for customers, the impact of which could adversely impact our business and financial results.

We also may face competition from new companies entering our markets, which may include large established businesses that decide to develop, market or resell competitive 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 competitive solutions at little or no additional cost to the customer by bundling them with their existing applications, including adjacent financial services technologies and core processing software. New entrants to the markets we serve might also include financial services providers developing financial services solutions and other technologies, including solutions built using competing BaaS solutions or open API platforms. 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 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 markets for our solutions, we expect competition to intensify in the future, which could harm our ability to increase sales and achieve profitability. In addition, we may face increased competition in our existing markets as we enter new markets or sections of a market with larger or different customers and new solutions. Our industry has also experienced recent consolidation which we believe may continue. Any further consolidation our industry experiences 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 or services used by our customers and prospective customers, including if we are forced to discontinue integration due to security or quality concerns with a third-party system or service, or if there are performance issues with such third-party systems or services, 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 and services used by our customers, including core processing software and, in the case of our BaaS solutions, banking services. Certain providers of these third-party systems or services also offer solutions that are competitive with our solutions and may have an advantage over us 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 APIs to enable these customer integrations.

Our business may be harmed if any such third-party provider:

- changes the features or functionality of its services, applications and platforms in a manner adverse to us;
- discontinues or limits our solutions' access to its systems or services;
- suffers a security incident or other incident that requires us to discontinue integration with its systems or services;
- experiences failures or delays in their services, systems or resources as a result of operational constraints or increased online banking activity related to the COVID-19 pandemic;
- ceases to operate, including as a result of the economic uncertainty triggered by the COVID-19 pandemic;
- terminates or does not allow us to renew or replace our existing contractual relationships on the same or better terms;

- modifies its terms of service or other policies, including fees charged to, or other restrictions on, us or our customers; or
- establishes more favorable relationships with one or more of our competitors, or acquires one or more of our competitors and offer competing services.

Such changes could limit or prevent us from integrating our solutions with these third-party systems or services, 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 systems or services as a result of changes to or restricted access to the systems or services by such third parties during the terms of existing agreements with customers using such third-party systems or services, 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 such third-party providers experience an outage, our solutions integrated with such systems or services will not function properly or at all, and our customers may be dissatisfied with our solutions. If the systems or services of such third-party providers have performance or other problems, such issues may reflect poorly on us and the adoption and renewal of our solutions and our business may be harmed. Although our customers may be able to switch to alternative technologies if a provider's systems or 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 services providers and to enable our 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 solutions. As a provider of technology to financial institutions, we are examined on a periodic basis by various regulatory agencies and required to review certain of our suppliers and partners. As a result of the COVID-19 pandemic, we and our customers may experience an increase in the volume of regulatory inquiries, examinations or additional regulatory requirements, which could require additional resources and costs to address. The examination handbook and other guidance issued by the Federal Financial Institutions Examination Council, or FFIEC, 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 regulations applicable to financial institutions, we are generally obligated to our customers to provide software solutions and maintain internal systems and processes that comply with federal, state and other 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. In addition, numerous regulations have been proposed and are still being written to implement the Dodd-Frank Act, including requirements for enhanced due diligence of the internal systems and processes of companies like ours by their financial institution customers. In general, larger financial institutions are subject to more stringent regulations and as a result, as we sell our solutions to larger financial institutions, we will become obligated to meet more stringent regulatory standards, including more in-depth audits. Laws and regulations put in place in response to the COVID-19 pandemic also may result in new regulatory obligations or frameworks. If we have to make changes to our internal processes and solutions as a result of these regulatory changes, 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 regulatory-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 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 consumer 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.

We are subject to various global data privacy and security regulations, which could result in additional costs and liabilities to us.

Our business is subject to a wide variety of local, state, national and international laws, directives and regulations that apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These data protection and privacy-related laws and regulations continue to evolve and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions and increased costs of compliance. In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, and state breach notification laws. If there is a breach of our systems and we know or suspect that unencrypted personal customer or End User information has been stolen, we may be required to inform the representative state attorney general or federal or country regulator, media and credit reporting agencies, and any customers whose information was stolen, which could harm our reputation and business. Other states and countries have enacted different requirements for protecting personal information collected and maintained electronically. We expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards will have on our business or the businesses of our customers, including, but not limited to, the European Union's General Data Protection Regulation, which came into force in May 2018 and the California Consumer Privacy Act, which came into force in January 2020, each of which creates a range of new compliance obligations, which could require us to change our business practices, and significantly increases financial penalties for noncompliance.

Failure to comply with laws concerning privacy, data protection and information security could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by customers, End Users and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing customers and End Users and prospective customers and End Users), any of which could have a material adverse effect on our operations, financial performance and business. In addition, we could suffer adverse publicity and loss of customer confidence were it known that we did not take adequate measures to assure the confidentiality of the personally identifiable information that our customers had given to us. This could result in a loss of customers and revenue that could jeopardize our success. We may not be successful in avoiding potential liability or disruption of business resulting from the failure to comply with these laws and, even if we comply with laws, may be subject to liability because of a security incident. If we were required to pay any significant amount of money in satisfaction of claims under these laws, or any similar laws enacted by other jurisdictions, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any of these laws, our business, operating results and financial condition could be adversely affected. Further, complying with the applicable notice requirements in the event of a security breach could result in significant costs.

Additionally, our business efficiencies and economies of scale depend on generally uniform solutions offerings and uniform treatment of customers and their End Users across all jurisdictions in which we operate. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose added costs on our business and can increase liability for compliance deficiencies.

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

Certain elements of our solutions process and store personally identifiable information, or PII, such as banking and personal information of our customers and their End Users, and we also may have access to PII during various stages of the implementation process or during the course of providing customer support. Furthermore, as we develop additional functionality, we may gain greater access to PII. We maintain policies, procedures and technological safeguards designed to protect the confidentiality, integrity and availability of this information and our information technology systems. However, we cannot entirely eliminate the risk of improper or unauthorized access to or disclosure of PII or other security events that impact the integrity or availability of PII or our systems and operations, or the related costs we may incur to mitigate the consequences from such events. Further, given the flexibility and complexity of our solutions, there is a risk that configurations of, or defects in, the solutions or errors in implementation could create vulnerabilities to security breaches. There may be unlawful attempts to disrupt or gain access to our information technology systems or the PII or other data of our customers or their End Users that may disrupt our or our customers' operations. In addition, because we leverage third-party providers, including cloud, software, data center and other critical technology vendors to deliver our solution to our customers and their End Users, we rely heavily on the data security technology practices and policies adopted by these third-party providers. A vulnerability in a third-party provider's software or systems, a failure of our third-party providers' safeguards, policies or procedures, or a breach of a third-

party provider's software or systems could result in the compromise of the confidentiality, integrity or availability of our systems or the data housed in our solutions.

Our security measures and the security measures of our customers or third-party providers on whom we rely may not be sufficient to prevent our systems from being compromised as a result of third-party action, the error or intentional misconduct of employees, customers or their End Users, malfeasance or stolen or fraudulently obtained login credentials. Security incidents can 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, ransomware attacks, account take-over attacks, fraudulent representations and other malicious Internet-based activity continue to increase and evolve and financial services providers, their End Users, and technology providers are often targets of such attacks. In addition to traditional computer "hackers," malicious code (such as viruses and worms), phishing, employee theft or misuse and denial-of-service attacks, sophisticated criminal networks as well as nation-state and nation-state supported actors now engage in attacks, including advanced persistent threat intrusions. Current or future criminal capabilities, discovery of existing or new vulnerabilities, and attempts to exploit those vulnerabilities or other developments, may compromise or breach our systems or solutions. In addition, third parties may attempt to fraudulently induce our employees or the employees of our customers or third-party providers into disclosing sensitive information such as usernames, passwords or other information to gain access to our confidential or proprietary information or the data of our customers and their End Users. A party who is able to compromise the security of our facilities could cause interruptions or malfunctions in our operations. 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 End Users. In addition, there may be an increased risk of cyber-attacks or cyber fraud related to the COVID-19 pandemic, as cybercriminals attempt to profit from the disruption, given increased online banking, e-commerce and other online activity. Additionally, there is an increased risk that we may experience cybersecurity-related events such as COVID-19 themed phishing attacks and other security challenges as a result of most of our employees and our service providers working remotely from non-corporate managed networks during the ongoing COVID-19 pandemic and potentially continuing working remotely even after the COVID-19 pandemic has subsided. 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.

Federal, state and other regulations may require us to notify customers and their End Users 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 report, 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 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 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 and predictability of sales of our solutions and the impact that the timing of bookings may have on our revenue and financial performance in a period;
- 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, and any costs associated with impairments of related contract assets;
- the amount and timing of our operating costs and capital expenditures;
- changes in tax rules or the impact of new accounting pronouncements, including the effects of our adoption of newly issued accounting standards regarding revenue recognition;
- 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;
- public health emergencies, such as the current COVID-19 pandemic and their effect on the operations of us, our customers, our third-party providers and on the overall economy;
- 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, the price of the notes and our common stock 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 notes and 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 \$70.9 million, \$35.4 million and \$26.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. As of September 30, 2020, we had an accumulated deficit of \$343.4 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, including through acquisitions, we expect to incur significant sales, marketing, implementation and other related expenses, including amortization of acquired intangibles. 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 solutions, 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. These increased expenditures will make it harder for us to achieve and maintain profitability. While our revenues have grown in recent periods, such growth 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, the COVID-19 pandemic and other unforeseen reasons and the risks described in this report. 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 services providers, often undertake a prolonged evaluation process, which typically involves not only our 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, such as the COVID-19 pandemic, 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. Such events may cause our customers or partners to delay, reduce, or even cancel planned digital financial services spending and may impact our business and operations. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected, and as a result of our sales cycle, subscription model and our revenue recognition policies, the effect of COVID-19 on our results of operations may not be fully reflected for some time.

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, or any customer terminations, 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. Additionally, as a result of the operational and economic challenges being faced by our customers as a result of the COVID-19 pandemic, we could be forced to modify contractual or payment terms with our customers. Moreover, large or influential financial services providers may demand more favorable pricing or other contract terms, including termination rights. 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 if our customers renew at all, then our customers may renew for fewer solutions or on different pricing terms. 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, including as a result of the COVID-19 pandemic. Additionally, certain agreements may include termination rights allowing customers to terminate their customer agreements in the event of, among other things, defects with our solutions, changes in our solution, breach by us of our obligations, requirements from regulatory authorities or a change in control of our company. If our customers terminate or 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 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 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 services providers 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 according to schedule or if customers are otherwise dissatisfied with the frequency 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, software or other services on which we rely could impair the delivery of our solutions and adversely affect our business.

We rely on hardware and services that we purchase or lease and software, including open source software, that we develop or license from, or that is hosted by third parties, to offer our 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. These third-party providers have chosen and may in the future choose not to continue to support certain of the hardware, software or services we license. We also have chosen and may in the future choose to discontinue the use of the hardware, services or software we acquire or license from such third-party providers, which may require that we pay termination fees or recognize related accounting charges or impairments. Additionally, these third-party providers of hardware, services and software have been, and may continue to be negatively impacted or cease operating as a result of operational and economic challenges triggered by the COVID-19 pandemic. While we are not substantially dependent upon any third-party hardware, services or software, the loss of the right or ability to use all or a significant portion of our third-party hardware, services 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, services 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, services or software, including as a result of disruptions or increased demand resulting from the COVID-19 pandemic, 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, such hardware, services 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 such hardware, services 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 host our digital banking platform solutions primarily from two third-party data center hosting facilities located in Austin, Texas and Carrollton, Texas and certain of our lending and leasing and BaaS solutions are hosted by cloud-based providers, including Amazon Web Services and Microsoft Azure. The owners and operators of these current and future facilities and cloud-based hosting services 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 as a result of disruptions or increased demand resulting from the COVID-19 pandemic. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, operational disruption, spikes in customer usage and denial of service issues. In early April, financial institutions and their online banking service providers experienced unprecedented user login activity as a result of increased online banking activity due to global shelter-in-

place and similar orders, as well as a significant increase in logins by End Users seeking to check their accounts for receipt of government stimulus funds. These unprecedented levels of logins resulted in delayed access to online banking for many financial institutions, including many of our customers. As a result of these delays, we have taken steps to increase the processing capacity of our online banking platform to minimize any future delays, and we expect to make additional incremental investments to further enhance our hosting infrastructure and support. 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 cloud-based services, and such facilities and services are vulnerable to damage or interruption from human error, intentional bad acts, power loss, hardware failures, telecommunications failures, fires, wars, terrorist attacks, floods, earthquakes, hurricanes, tornadoes, pandemics 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' End Users from accessing their accounts or services 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, services 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, pandemics 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 do not have any control over the availability or performance of salesforce.com's Force.com platform, and if we or our digital lending and leasing solution customers encounter problems with it, we may be required to replace Force.com with another platform, which would be difficult and costly.

Certain of our digital lending and leasing solutions run on salesforce.com's Force.com platform, and we do not have any control over the Force.com platform or the prices salesforce.com charges to our customers. Salesforce.com may discontinue or modify Force.com or increase its fees or modify its pricing incentives for our customers. If salesforce.com takes any of these actions, we may suffer lower sales, increased operating costs and loss of revenue from certain of our digital lending and leasing solutions until equivalent technology is either developed by us, or, if available from a third party, is identified, obtained and integrated. Additionally, we may not be able to honor commitments we have made to our customers and we may be subject to breach of contract or other claims from our customers.

In addition, we do not control the performance of Force.com. If Force.com experiences an outage, certain of our digital lending and leasing solutions will not function properly, and our customers may be dissatisfied. If salesforce.com has performance or other problems with its Force.com platform or its operations generally, including as a result of the COVID-19 pandemic, they will reflect poorly on us and the adoption and renewal of certain of our digital lending and leasing solutions and our business may be harmed.

Shifts over time in the number of End 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 End 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 End Users and the number of transactions they perform on our solutions, the types of customers that purchase our solutions changes, or the mix of solutions purchased by our customers changes, all of which may occur as a result of the COVID-19 pandemic, our profit margins could decrease and our operating results could be adversely affected.

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

Effective customer training on our 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. Additionally, training and support services may become more difficult to perform in light of the operational constraints related to the COVID-19 pandemic, including as a result of remote working by us and our customers' employees. The demand on our customer support organization will increase as we expand our business and pursue new customers and as we adjust our operations to address the operational constraints placed on us, our customers and our third-party providers by the COVID-19 pandemic, 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, including those resulting from the COVID-19 pandemic, or introduce adequate enhancements, new features or solutions, our solutions could become obsolete or less competitive.

The markets for our solutions are 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 services providers could undermine our current market position. Other means of digital financial services solutions 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, customers may change if they or their competitors offer new services to End Users. Maintaining adequate research and development resources to meet the demands of the markets we serve 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. In addition, the operational constraints placed on our business as a result of the COVID-19 pandemic may adversely impact our ability to bring to new solutions to market in a timely manner. 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 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 new and 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. Furthermore, as a result of the COVID-19 pandemic, nearly all of our employees, and many of the employees of our customers and third-party providers on which we depend, now perform their functions remotely. If shelter-in-place, business closure, business occupancy limitation, and other restrictive orders continue, they may adversely impact our ability to effectively train and retain qualified individuals and the effectiveness of our direct sales team. We also may take additional actions in response to the COVID-19 pandemic that further alter our business operations as the situation evolves. These decisions may delay or reduce sales and harm productivity and collaboration. The ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business cannot be predicted at this time.

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 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 relationships 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, including as a result of our transition to a remote workforce in response to the COVID-19 pandemic, 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 End Users. 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, our employment agreements with our named executive officers provide for the payment of severance under certain circumstances. We also have 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 and although we have taken steps to try to protect the health of our employees in light of the COVID-19 pandemic, the continued spread of the virus may increase the risk that one or more of our key employees or other significant portions of our workforce become temporarily or permanently unavailable.

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. 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.

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 services providers, or their End Users, or diminished viability of our solutions and could significantly restrict our customers' ability to use our solutions. Changing 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' End User 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 customers' End Users to enable certain functionality of our solutions and provide our customers with data about their End Users. 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. 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, the inability to determine whether a data breach has occurred within the time frame provided by, 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 solutions by our customers in violation of regulatory requirements could damage our reputation and subject us to additional liability.

If our customers or their End Users use our solutions in violation of regulatory requirements and applicable laws, we could suffer damage to our reputation and could become subject to claims. We rely on contractual obligations made to us by our customers that their use and their End Users' use of our solutions will comply with applicable laws. However, we do not audit our customers or their End Users to confirm compliance. We may become subject to or involved with claims for violations by our customers or their End Users 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 End Users' 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 or intellectual property disputes or employment claims made by our current or former employees, including as a result of actions taken by us in response to the COVID-19 pandemic. 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 may not cover such claims, provide sufficient payments to cover all the costs to resolve one or more such claims or continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs and impact our liquidity, thereby reducing our operating results and impacting our financial condition, leading analysts and investors to reduce their confidence and expectations and reduce the trading price of our stock.

Lawsuits by third parties against us or 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 and financial condition.

Our industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights as well as a high number of allegations and disputes related to these rights. Our competitors and the competitors of our customers, as well as a number of other entities and individuals (both operating and non-operating), own or claim to own intellectual property relating to our industry. As a result, we regularly are subject to allegations and involved in disputes, either directly or on behalf of our customers, that our solutions and the underlying technology infringe the patent and other intellectual property rights of third parties. The frequency of these types of claims also may increase as we continue to add new customers and as a result of our being a public company. The defense against these allegations and disputes and, if unsuccessful, their resolution could result in our having to pay damages and negatively impact

our ability to continue to sell and provide all or a portion of our solutions or certain third-party solutions, any of which could materially harm our reputation, business results and financial condition. Insurance may not cover such claims, provide sufficient payments to cover all the costs to resolve one or more such claims or continue to be available on terms acceptable to us.

Our success in these matters depends upon our not infringing upon the intellectual property rights of others. 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 or more relevant patent portfolios than we have.

Our customer agreements typically require us to indemnify our customers in connection with claims alleging our solutions or the underlying technologies infringe the patent or other intellectual property rights of third parties. Our customers regularly receive allegations from third parties or are involved in these disputes with third parties, and we may be required to indemnify them in connection with these matters. We are currently involved in these types of disputes, and given the high level of this activity in our industry, we expect these types of disputes to continue to arise in the future. If we are unsuccessful in defending claims for which we are required to provide indemnity, our business and operating results could be adversely affected. Any significant disputes among us and our customers as to the applicability of our indemnity obligations could negatively impact our reputation and customer relations, affect our ability to sell our solutions and harm our operating results. Further, there can be no assurances that any provisions in our contracts that purport to limit our liability would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim.

In certain instances, we license technologies from third parties for use directly or indirectly in our solutions or for resell with our solutions. Our contracts with these third parties may include provisions that require the third party to indemnify us in the event of any claim or dispute that the third party's technologies infringe upon the patent or other intellectual property rights of others. If we are unable for any reason to seek indemnity or otherwise collect from those third parties our direct or indirect liabilities related to any claim, then we may have to bear the liabilities ourselves and our business performance and financial condition could be substantially harmed.

The risk of patent litigation exists with operating entities but also has been amplified by the increase in the number of non-practicing patent asserting entities, or patent trolls. Any claims or litigation, whether by operating entities or patent trolls, 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.

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 also may 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.

As of September 30, 2020, we had ten U.S. patent applications pending and three issued U.S. patents. We do not know whether our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow the scope of our claims. To the extent that our pending patent applications or any portion of such applications proceed 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 our annual report on Form 10-K and this report 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 our Annual Report on Form 10-K for the year ended December 31, 2019 and our other filings with the SEC, including the data and forecasts published by BauerFinancial, Deloitte and Venture Scanner 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. Such reports speak as of their respective publication dates and the opinions expressed in such reports are subject to change. Further, such reports are subject to change as a result of the impact of COVID-19 on the global economy generally, and on our financial condition or results of operations in particular. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on various factors, including the impact on our customers, partners, vendors and End Users, and on the operation of the global markets in general. The ultimate impact of the COVID-19 pandemic on our business, financial condition, liquidity and financial results cannot be predicted at this time. Accordingly, potential investors in our common stock are urged not to put undue reliance on such forecasts and market data.

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, 2019, we had approximately \$425.0 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, as amended, 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 in March 2014 or our registered common stock offerings in March 2015, September 2015, June 2019 and May 2020, 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. In addition, our acquisition of the various businesses acquired since 2015 may result in an ownership change, and any such change in ownership may result in a corresponding annual limitation which may prevent us from being able to fully utilize the net operating losses we acquired prior to their expiration. Future ownership changes or future regulatory changes could further limit our ability to utilize our net operating loss carryforwards. To the extent we are not 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 and other tax returns within the U.S. and foreign jurisdictions as required by law and certain customer contracts for a portion of the solutions that we provide. Our tax liabilities with respect to sales and other taxes in various jurisdictions was approximately \$1.1 million as of September 30, 2020. From time to time, we face sales and other tax audits, and we will likely continue to do so in the future, and our liability for these taxes could exceed our estimates as tax authorities could still assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to such authorities.

We do not collect sales or other similar taxes in other states or jurisdictions and some jurisdictions do not apply sales or similar taxes to certain solutions. State, local and foreign taxing jurisdictions have differing rules and regulations governing sales and other 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 solutions in various jurisdictions is unclear. We review these rules and regulations periodically and, when we believe we are subject to sales and other taxes in a particular jurisdiction, we may voluntarily engage tax authorities to determine how to comply with their rules and regulations. A successful assertion by one or more jurisdictions, including those for which we have not accrued tax liability, requiring 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 SEC and will evolve as the Financial Accounting Standards Board, or FASB, continues to consider applicable accounting standards in this area. In particular, in order to be able to comply and maintain compliance with the requirements of the new revenue recognition standard under Accounting Standards Codification, or ASC, 606, we have updated and enhanced our internal accounting systems and processes and our internal controls over financial reporting. This has required, and will continue to require, additional investments by us, and may require incremental resources and system configurations that could increase our operating costs in future periods. Further, as companies operate in compliance with ASC 606, its interpretation and application will likely evolve over time which could adversely impact our current and historical financial results and require further changes to our disclosures, internal systems and processes and internal controls.

Because our long-term success depends on our ability to operate our business internationally and increase sales of our solutions to customers located outside of the United States, our business is susceptible to risks associated with international operations.

We have international operations in India, Australia, the United Kingdom, and the Netherlands. We also expect to continue to expand our international operations for the foreseeable future. The continued international expansion of our operations requires significant management attention and financial resources and results in increased administrative and compliance costs. Our limited experience in operating our business in certain regions outside the United States increases the risk that our expansion efforts into those regions may not be successful. In particular, our business model may not be successful in particular countries or regions outside the United States for reasons that we currently are unable to anticipate. In addition, conducting international operations subjects us to risks that we have not generally faced in the United States. These include, but are not limited to:

- fluctuations in currency exchange rates;
- the complexity of, or changes in, foreign regulatory requirements;
- the cost and complexity of bringing our solutions into compliance with foreign regulatory requirements, and risks of our solutions not being compliant;
- difficulties in managing the staffing of international operations, including compliance with local labor and employment laws and regulations;
- complexities implementing and enforcing cross-border information technology and security controls;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, overlapping tax regimes, restrictions on the repatriation of earnings and changes in tax rates;
- dependence on resellers and distributors to increase customer acquisition or drive localization efforts;
- the burdens of complying with a wide variety of foreign laws and different legal standards, including shelter-in-place and similar orders imposed by foreign regulatory authorities in response to the COVID-19 pandemic, certain of which may be significantly more burdensome than those in place in the United States;
- increased financial accounting and reporting burdens and complexities;
- longer payment cycles and difficulties in collecting accounts receivable;
- longer sales cycles;
- political, social and economic instability abroad, including as a result of the COVID-19 pandemic;
- terrorist attacks and security concerns in general;
- integrating personnel with diverse business backgrounds and organizational cultures;
- difficulties entering new non-U.S. markets due to, among other things, consumer acceptance and business knowledge of these new markets;
- travel restrictions imposed in response to the COVID-19 pandemic;
- constraints or remote working by employees during the COVID-19 pandemic due to limitations of local infrastructure or other resources;
- reduced or varied protection for intellectual property rights in some countries; and
- the risk of U.S. regulation of foreign operations.

The occurrence of any one of these risks could negatively affect our international business and, consequently, our operating results. We cannot be certain that the investment and additional resources required to establish, acquire or integrate operations in other countries will produce desired levels of revenue or profitability. If we are unable to effectively manage our expansion into additional geographic markets, our financial condition and results of operations could be harmed.

In particular, we operate some of our research and development activities internationally and outsource a portion of the coding and testing of our products and product enhancements to contract development vendors. We believe that performing research and development in our international facilities and supplementing these activities with our contract development vendors enhances the efficiency and cost-effectiveness of our product development. If we experience problems with our workforce or facilities internationally, including as a result of work limitations resulting from the COVID-19 pandemic, we may not be able to develop new products or enhance existing products in an alternate manner that may be equally or less efficient and cost-effective. In addition, if information technology and security controls we have implemented to address risks posed by research and development activities outside of the United States are breached or are otherwise ineffective, our intellectual property or technical infrastructure could be compromised or stolen.

We are monitoring developments related to the United Kingdom's departure from the European Union commonly referred to as "Brexit." The potential effects of Brexit on our business will depend upon any agreements the United Kingdom makes to retain access to European Union markets either during the current transitional period or more permanently and negotiations are ongoing. Since we have operations in the United Kingdom and Europe, Brexit could potentially have corporate structural consequences, adversely change tax benefits or liabilities and disrupt some of the markets and jurisdictions in which we operate. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate.

We may acquire or invest in companies, or pursue business partnerships, which may divert our management's attention and present additional risks, and we may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions or investments, all of which could have a material adverse effect on our business and results of operations.

We have completed, and may in the future evaluate and consider, potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets. 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 additional 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.

We may not achieve the anticipated benefits from our past acquisitions or any additional businesses we acquire due to a number of factors, including:

- our inability to integrate, manage or benefit from acquired operations, technologies or services;
- unanticipated costs or liabilities associated with the acquisition, including the assumption of liabilities or commitments of the acquired business that were not disclosed to us or that exceeded our estimates;
- 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;
- uncertainty of entry into markets in which we have limited or no prior experience or in which competitors have stronger market positions;
- 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;
- the use of a substantial portion of our cash that we may need to operate our business and which may limit our operational flexibility and ability to pursue additional strategic transactions;
- the issuance of additional equity securities that would dilute the ownership interests of our stockholders;

- incurrence of debt on terms unfavorable to us or that we are unable to repay;
- incurrence of large charges or substantial liabilities;
- our inability to apply and maintain internal standards, controls, procedures and policies with respect to the acquired businesses;
- difficulties retaining key employees of the acquired company or integrating diverse software codes or business culture; and
- becoming 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 also may 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, particularly in light of evolving market conditions resulting from the COVID-19 pandemic. 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 Ownership of Our Common Stock

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.

As a public company, we have incurred and will continue to incur significant legal, accounting, administrative and other costs and expenses. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC, the Public Company Accounting Oversight Board and the New York Stock Exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with public company requirements has increased our costs and made some activities more time-consuming. In addition, our management and other personnel have been required to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we have incurred and will continue to incur significant expenses as well as devote substantial management effort toward ensuring ongoing compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. Although we have hired additional employees to comply with these requirements, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge to comply with any regulatory changes.

Furthermore, if we identify any issues in complying with public company reporting 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 also may 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.

Any future sales of our common stock in the public markets, or the perception that such sales might occur, could reduce the price that our common stock might otherwise attain and may dilute the voting power and ownership interest in us of our then-existing stockholders.

As of September 30, 2020, we had an aggregate of 53,872,143 outstanding shares of common stock. The shares sold in our public offerings can be freely sold in the public market without restriction unless they are held by "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining shares can be freely sold in the public market, subject in some cases to volume and other restrictions under Rule 144 under the Securities Act and various agreements. We have registered 20,115,776 shares of common stock that we have issued and may issue under our stock plans. These shares can be freely sold in the public market upon issuance, subject in some cases to volume and other restrictions under Rules 144 under the Securities Act, and various vesting agreements. In addition, some of our employees, including some of our executive officers, have entered into 10b5-1 trading plans regarding sales of shares of our common stock. These plans provide for sales to occur from time to time. 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.

In February 2018, we issued \$230.0 million aggregate principal amount of 0.75% Convertible Senior Notes due 2023, or the 2023 Notes. In June 2019, we issued \$316.3 million aggregate principal amount of 0.75% Convertible Senior Notes due 2026, or the 2026 Notes. In addition, in June 2019, we also completed a registered offering of a total of 3,033,684 shares of our common stock at a price of \$69.50 per share. In May 2020, we completed a registered offering of a total of 4,735,294 shares of our common stock at a price of \$76.50 per share. In the future, we may issue additional securities to raise capital or in connection with investments and acquisitions. In addition, a substantial number of shares of our common stock are reserved for issuance upon conversion of our convertible notes and the warrants issued in connection with the offering of the 2023 Notes. The amount of our common stock issued in connection with any such issuance 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 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.

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, including if we acquire additional businesses and integrate their operations. 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 United States generally accepted accounting principles, or GAAP. While we have documented and assessed our internal controls, we continue to evaluate opportunities to further strengthen the effectiveness and efficiency of our internal controls and procedures for compliance with Section 404 of the Sarbanes-Oxley Act, which requires annual management assessment and annual independent registered public accounting firm attestation reports of the effectiveness of our internal control over financial reporting. Additionally, as a result of operational constraints related to the COVID-19 pandemic,

including nearly all of our employees working remotely and employees of our independent registered accounting firm no longer having access to our facilities, our existing controls and procedures may prove inadequate, or may require enhancement and we may be required to adopt additional controls and procedures. If we make additional acquisitions, we will need to similarly assess and ensure the adequacy of the internal financial and accounting controls and procedures of such acquisitions. If we fail to maintain proper and effective internal controls, including with respect to acquired businesses, 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 common stock.

Our stock price may be volatile.

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 report, and other factors beyond our control. In particular, the market price of our common stock and the market price of the common stock of many other companies have fallen significantly since the outbreak of the COVID-19 pandemic. The extent and duration of the impact of the COVID-19 pandemic on the economy, our business, our customers and the market price of our common stock is unclear and out of our control.

Additional 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; and
- recruitment or departure of key personnel.

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. 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 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. 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 will ever exceed the price that you paid for your common stock.

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. 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;
- 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.

We may not be able to obtain capital when desired on favorable terms, if at all, and we may not be able to obtain capital or complete acquisitions through the use of equity or without dilution to our stockholders.

We may need additional financing to execute on our current or future business strategies, including to develop new or enhance existing products and services, acquire businesses and technologies, or otherwise to respond to competitive pressures. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we accumulate additional funds through debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. We cannot assure you that additional financing will be available on terms favorable to us, or at all, particularly in light of the evolving market conditions resulting from the COVID-19 pandemic. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products and services, or otherwise respond to competitive pressures would be significantly limited. Any of these factors could harm our results of operations and negatively impact the trading price of our common stock.

Risks Related to Our Convertible Notes

We incurred indebtedness by issuing our 2023 Notes in 2018 and our 2026 notes in 2019 and our debt repayment obligations may adversely affect our financial condition and cash flows from operations in the future.

Our indebtedness under our convertible notes may impair our ability to obtain additional financing in the future for general corporate purposes, including working capital, capital expenditures, potential acquisitions and strategic transactions, and a portion of our cash flows from operations may have to be dedicated to repaying the principal of the 2023 Notes in 2023 and the principal of the 2026 Notes in 2026 or earlier if necessary. Our ability to meet our debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We cannot control many of these factors. Our future operations may not generate sufficient cash to enable us to repay our debt, including the 2023 Notes or 2026 Notes. If we fail to make a payment on our debt, we could be in default on such debt. If we are at any time unable to pay our indebtedness when due, we may be required to renegotiate the terms of the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that, in the future, we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

In addition, holders of each series of our convertible notes will have the right to require us to repurchase all or a portion of their notes upon the occurrence of a fundamental change, as defined in the respective indentures, at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest. Upon conversion of each series of convertible notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the series of notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the series of convertible notes surrendered therefor or at the time such series of convertible notes is being converted. In addition, our ability to repurchase each series of convertible notes or to pay cash upon conversions of each series of convertible notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase a series of convertible notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of such series of convertible notes as required by the indenture governing such series of convertible notes would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof. An event of default under the indenture governing the notes may lead to an acceleration of the notes. Any such acceleration could result in our bankruptcy. In a bankruptcy, the holders of the notes would have a claim to our assets that is senior to the claims of our equity holders.

Conversion of the convertible notes will dilute the ownership interest of our existing stockholders or may otherwise depress the price of our common stock.

The conversion of some or all of our convertible notes will dilute the ownership interests of existing stockholders. Any sales in the public market of our common stock issuable upon such conversion of our convertible notes could adversely affect prevailing market prices of our common stock. In addition, the existence of the convertible notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the convertible notes into shares of our common stock could depress the price of our common stock.

Our convertible notes bond hedge and warrant transactions entered into in connection with the offering of the 2023 Notes may affect the value of our common stock.

In connection with the offering of the 2023 Notes, we entered into convertible notes bond hedge, or Bond Hedge, transactions with one or more counterparties. We also entered into warrant transactions with the counterparties pursuant to which we sold warrants for the purchase of our common stock. The Bond Hedge transactions related to the 2023 Notes are expected generally to reduce the potential dilution upon any conversion of 2023 Notes or offset any cash payments we are required to make in excess of the principal amount upon conversion of any 2023 Notes. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the strike price of the warrants. In connection with establishing their initial hedges of the 2023 Note hedge and warrant transactions, the counterparties or their respective affiliates purchased shares of our common stock or entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the 2023 Notes. The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock or purchasing or selling our common stock in secondary market transactions prior to the maturity of the 2023 Notes, and are likely to do so during any observation period related to a conversion of 2023 Notes or following any repurchase of 2023 Notes by us. This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

The capped call transactions entered into in connection with the offering of the 2026 Notes may affect the value of our common stock.

In connection with the offering of the 2026 Notes, we entered into capped call transactions with one or more counterparties, or the Capped Calls. The Capped Calls cover, subject to customary adjustments, the number of shares of our common stock initially underlying the 2026 Notes. The Capped Calls are expected to offset the potential dilution and/or offset any cash payments we are required to make in excess of the principal amount of converted 2026 Notes, as a result of conversion of the 2026 Notes, with such offset subject to a cap. In connection with establishing their initial hedges of the Capped Calls, the counterparties or their respective affiliates purchased shares of our common stock or entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the 2026 Notes. The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2026 Notes, and are likely to do so during any observation period related to a conversion of the 2026 Notes or following any repurchase of 2026 Notes by us. This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

Certain provisions in the indentures governing our convertible notes may delay or prevent an otherwise beneficial takeover attempt of us and may affect the trading price of our common stock.

Certain provisions in the indentures governing our convertible notes may make it more difficult or expensive for a third party to acquire us. For example, the indentures governing our convertible notes will require us to repurchase the convertible notes for cash upon the occurrence of a fundamental change (as defined in the respective indentures) of us and, in certain circumstances, to increase the conversion rate for a holder that converts the convertible notes in connection with a make-whole fundamental change. A takeover of us may trigger the requirement that we repurchase our convertible notes, and/or increase the conversion rate, which could make it more costly for a potential acquirer to engage in such takeover. Such additional costs may have the effect of delaying or preventing a takeover of us that would otherwise be beneficial to investors in our common stock.

If the conditional conversion feature of either series of convertible notes is triggered, our financial condition and operating results may be adversely affected which could decrease the trading price of our common stock.

In the event the conditional conversion feature of the 2023 Notes or 2026 Notes is triggered, note holders will be entitled to convert their 2023 Notes or 2026 Notes at any time during specified periods at their option. If one or more holders elect to convert the 2023 Notes or 2026 Notes, we may elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), which would result in dilution to the holders of our common stock. If we elect to or would be required to settle a portion or all of our conversion obligation in cash, it could adversely affect our liquidity, which may negatively impact the trading price of our common stock. In addition, even if holders of the 2023 Notes or 2026 Notes do not elect to convert their 2023 Notes or 2026 Notes we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2023 Notes or 2026 Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital, which may negatively impact the trading price of our common stock.

The accounting method for convertible notes that may be settled in cash, such as our convertible notes, could have a material effect on our reported financial results.

Under ASC 470-20, "Debt with Conversion and Other Options," an entity must separately account for the liability and equity components of the convertible debt instruments, such as our convertible notes, that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for our convertible notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of our convertible notes. As a result, we will be required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of our convertible notes to their face amount over the applicable term of the convertible notes. We will report larger net losses, or lower net income, in our financial results because ASC 470-20 will require interest to include both the amortization of the debt discount and the instrument's nonconvertible coupon interest rate, which could adversely affect our reported or future financial results and the trading price of our common stock.

In addition, under certain circumstances, convertible debt instruments, such as our convertible notes, that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the 2023 Notes or 2026 Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the 2023 Notes and 2026 Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the 2023 Notes and 2026 Notes then our diluted earnings per share could be adversely affected.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

None.

(c) Repurchases

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Be Purchased Under the Plans or Programs
July 1 - 31, 2020	—	\$ —	—	\$ —
August 1 - 31, 2020	337	93.00	—	—
September 1 - 30, 2020	—	—	—	—
Total	337	\$ 93.00	—	\$ —

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

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	* Fifth Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2019).
3.2	* Amended and Restated Bylaws of the Registrant (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2019).
31.1	** Certification of Chief Executive Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	** Certification of Chief Financial Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	# Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.
32.2	# Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
101.INS	** XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	** XBRL Taxonomy Extension Schema Document.
101.CAL	** XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	** XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	** XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	** XBRL Taxonomy Extension Presentation Linkbase Document.
104	** Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Incorporated herein by reference to the indicated filing.

** Filed herewith.

Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 5, 2020	Q2 HOLDINGS, INC. By: <u>/s/ MATTHEW P. FLAKE</u> Matthew P. Flake <i>President and Chief Executive Officer</i> <i>(Principal Executive Officer)</i>
November 5, 2020	By: <u>/s/ JENNIFER N. HARRIS</u> Jennifer N. Harris <i>Chief Financial Officer</i> <i>(Principal Financial and Accounting Officer)</i>

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew P. Flake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Q2 Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ MATTHEW P. FLAKE

Matthew P. Flake
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Jennifer N. Harris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Q2 Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ JENNIFER N. HARRIS

Jennifer N. Harris
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the President and Chief Executive Officer of Q2 Holdings, Inc. (the “Company”), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ MATTHEW P. FLAKE

Matthew P. Flake
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, the Chief Financial Officer of Q2 Holdings, Inc. (the “Company”), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ JENNIFER N. HARRIS

Jennifer N. Harris
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.