Form
Unknown document format

ding-right:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;">

)
Net cash used in investing activities

(26,735
)

(11,309
)

(2,606
)
Cash flows from financing activities:

Proceeds from issuance of preferred stock, net of issuance costs

—

18,995

—

Proceeds from borrowings on line of credit

12,500

6,350

—

Payments on line of credit

(18,710
)

(2,682
)

—

Payments on capital lease obligations

(748
)

(718
)

(654
)
Proceeds from the issuance of common stock, net of issuance costs

86,286

—

—

Proceeds from exercise of stock options to purchase common stock

2,017

435

17

Shares acquired to settle the exercise of stock options

(20
)

—

—

Net cash provided by (used in) financing activities

81,325

22,380

(637

)
Net increase (decrease) in cash and cash equivalents

49,304

9,564

(6,252
)
Cash and cash equivalents, beginning of period

18,675

9,111

15,363

Cash and cash equivalents, end of period

$
67,979

$
18,675

$
9,111

Supplemental disclosures of cash flow information:

Cash paid for taxes

$
55

$
164

$
199

Cash paid for interest

$
419

$
377

$
184

Supplemental disclosure of non-cash investing activities:

Equipment acquired under capital lease

$
—

$
975

$
1,185

Data center assets acquired under financing arrangements

$
5,209

$
—

$
—

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

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

1. Organization and Description of Business

Q2 Holdings, Inc., or the Company, is a leading provider of secure, cloud-based virtual banking solutions. The Company enables regional and community financial institutions, or RCFIs, to deliver a robust suite of integrated virtual banking services and more effectively engage with their retail and commercial account holders who expect to bank anytime, anywhere and on any device. The Company delivers its solutions to the substantial majority of its customers using a software-as-a-service, or SaaS, model under which its RCFI customers pay subscription fees for the use of the Company's solutions.

The Company, formerly known as CBG Holdings, Inc., was incorporated in Delaware in March 2005 and is a holding company that owns 100% of the outstanding capital stock of Q2 Software, Inc. On March 1, 2013, the Company reorganized its business operations in conjunction with the private placement of its Series C redeemable convertible preferred stock. Prior to the reorganization, the Company owned 100% of the outstanding capital stock of cbanc Network Inc., or cbanc. Pursuant to the reorganization, the Company distributed all shares of cbanc to its stockholders in a spin-off, and the Company was renamed Q2 Holdings, Inc.

The Company's headquarters are located in Austin, Texas.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

As used in this report, the terms "the Company," "we," "us," or "our" refer to Q2 Holdings, Inc. and its wholly-owned subsidiary. These 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. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying 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 consolidated financial statements, and the reported amounts of revenues and expenses. Significant items subject to such estimates include stock-based compensation, the useful lives of property and equipment 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.

F-7

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

Restricted Cash

Restricted cash consists of deposits held in checking and money market accounts for leased office space.

Investments

Investments consist primarily of U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposits 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 and restricted cash 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 years ended December 31, 2014, 2013 and 2012. No individual customer accounted for 10% or more of accounts receivable, net, as of December 31, 2014 or 2013.

Accounts Receivable

Accounts receivable are stated at net realizable value, including both billed and unbilled receivables to customers. Unbilled receivable balances arise primarily when the Company provides services in advance of billing for these services and also when the Company earns revenues based on the number of registered users and the number of bill-pay and certain other transactions that registered users perform on the Company's virtual banking solutions in excess of the levels included in the Company's minimum subscription fee. Generally, billing for such revenues related to the number of registered users and the number of transactions processed by our registered users occurs one month in arrears. Included in the accounts receivable balances as of December 31, 2014 and 2013 were unbilled receivables of $2.3 million and $1.8 million, respectively.

The Company assesses the collectability of outstanding accounts receivable on an ongoing basis and maintains an allowance for doubtful accounts for accounts receivable deemed uncollectable. This allowance is recorded as a reduction against accounts receivable. As of December 31, 2014 and 2013, the Company did not provide for an allowance for doubtful accounts, as all amounts outstanding were deemed collectable. Historically, the Company's collection experience has not varied significantly, and bad debt expenses have been insignificant.

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

The following table shows the Company's allowance for sales credits as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|
| Year Ended December 31, 2012 | $— | $51 | $— | $51 |
| Year Ended December 31, 2013 | 51 | 290 | (233) | 108 |
| Year Ended December 31, 2014 | $108 | $399 | $(334) | $173 |

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

Deferred Implementation Costs

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

Deferred Solution and Other Costs

The Company capitalizes sales commissions and other third-party costs, such as third party licenses and maintenance related to its customer agreements. The Company capitalizes sales commissions because the commission charges are so closely related to the revenues from the non-cancellable customer agreements that they should be recorded as an asset and charged to expense over the same period that the related revenue is recognized. The Company begins amortizing deferred solution and other costs for a particular customer agreement once the revenue recognition criteria are met and amortizes those deferred costs over the remaining term of the customer agreement. The Company analyzes solution and other costs that may be capitalized to assess their recoverability and only capitalizes costs that it anticipates to be recoverable. The portion of capitalized costs expected to be amortized during the succeeding twelve-month period is recorded in current assets as deferred solution and other costs, current portion, and the remainder is recorded in long-term assets as deferred solution and other costs, net of current portion. Deferred commissions were $7.0 million and $4.6 million as of December 31, 2014 and 2013, respectively.

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 |

Deferred Revenues

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

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

Revenues

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

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

- there is persuasive evidence of an arrangement;

- the service has been or is being provided to the customer;

- the collection of the fees is reasonably assured; and

- the amount of fees to be paid by the customer is fixed or determinable.

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

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

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

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

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

When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence of selling price, or VSOE, if available, third-party evidence of selling price, or TPE, if VSOE is not available or best estimate of selling price, or BESP, if neither VSOE nor TPE is available.

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

The Company has not established VSOE for its subscription services due to lack of pricing consistency, the introduction of new services and other factors. The Company has determined that TPE is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third-party pricing information. Accordingly, the Company uses BESP to determine the relative selling price. The amount of revenue allocated to delivered items is limited by contingent revenues.

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

Subscription Fee Revenues

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

Professional Services Revenues

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

Certain out-of-pocket expenses billed to customers are recorded as revenues rather than an offset to the related expense. Revenues recorded from out-of-pocket expense reimbursements totaled approximately $0.8 million, $0.5 million and $0.4 million during the years ended December 31, 2014, 2013 and 2012, respectively. The out-of-pocket expenses are reported in cost of revenues.

Term Licenses and Maintenance Revenues

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

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

Cost of Revenues

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

The amount of research and development expenses allocated to cost of revenues was $1.4 million, $1.6 million and $1.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company capitalizes certain personnel costs directly related to the implementation of its solutions to the extent those costs are considered to be recoverable from future revenues. The Company amortizes the costs for a particular implementation once revenue recognition commences, and the Company amortizes those implementation costs over the remaining term of the customer agreement. Other costs not directly recoverable from future revenues are expensed in the period incurred. The Company capitalized implementation costs in the amount of $3.8 million, $3.2 million, and $2.6 million during the years ended December 31, 2014, 2013 and 2012, respectively.

Software Development Costs

Software development costs include salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, attributed to programmers, software engineers and quality control teams working on the Company's solutions. Costs related to software development incurred between reaching technological feasibility and the point at which the software solution is ready for general release have been insignificant through December 31, 2014, and accordingly all of the Company's software development costs have been expensed as incurred as research and development.

Research and Development Costs

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

Advertising

All advertising costs of the Company are expensed the first time the advertising takes place. Advertising costs were $0.5 million, and $0.3 million for the years ended December 31, 2014 and 2013, respectively, and advertising costs were insignificant for the year ended December 31, 2012.

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.

F-12

Table of Contents

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

Comprehensive Loss

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

Stock-Based Compensation

Stock options and restricted stock units awarded to employees, directors and consultants are measured at fair value at each grant date. The Company recognizes compensation expense ratably over the requisite service period of the option or restricted stock unit award. 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% beginning on the one-year anniversary of the grant date.

The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is 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.

Income Taxes

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

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. Through December 31, 2014, the Company has not identified any material uncertain tax positions for which liabilities would be required to be recorded.

F-13

Table of Contents

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

Basic and Diluted Net Loss per Common Share

The Company uses the two-class method to compute net loss per common share because the Company has issued securities, other than common stock, that contractually entitle the holders to participate in dividends and earnings of the Company. The two-class method requires earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings. Holders of the Company's Series A, B and C preferred stock are entitled, on a pari passu basis, to receive dividends when, as and if declared by the board of directors, prior and in preference to any declaration or payment of any dividend on the common stock or junior convertible preferred stock until such time as the total dividends paid on each share of Series A, B and C preferred stock is equal to the original issue price of the shares. Holders of junior convertible preferred stock are entitled to receive a pro rata share of any dividend declared, based on the number of shares of common and preferred stock outstanding. As a result, all series of the Company's preferred stock are considered participating securities.

Under the two-class method, for periods with net income, basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of current year earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. No such adjustment to earnings is made during periods with a net loss, as the holders of the participating securities have no obligation to fund losses. Diluted net income per common share is computed under the two-class method by using the weighted-average number of shares of common stock outstanding plus, for periods with net income attributable to common stockholders, the potential dilutive effects of stock options and warrants. In addition, the Company analyzes the potential dilutive effect of the outstanding participating securities under the if-converted method when calculating diluted earnings per share, in which it is assumed that the outstanding participating securities convert into common stock at the beginning of the period. The Company reports the more dilutive of the approaches as its diluted net income per share during the period. Due to net losses for each of the years ended December 31, 2014, 2013 and 2012, basic and diluted net loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive.

Table of Contents

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

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Numerators: | | | |
| Loss from continuing operations attributable to common stockholders | $(19,634) | $(17,676) | $(7,520) |
| Loss from discontinued operations attributable to common stockholders | — | (199) | (1,259) |
| Net loss attributable to common stockholders | $(19,634) | $(17,875) | $(8,779) |
| Denominator: | | | |
| Weighted-average common shares outstanding, basic and diluted | 29,257 | 11,866 | 11,345 |
| Loss from continuing operations per share, basic and diluted | $(0.67) | $(1.49) | $(0.66) |
| Loss from discontinued operations per share, basic and diluted | $— | $(0.02) | $(0.11) |
| Net loss per common share, basic and diluted | $(0.67) | $(1.51) | $(0.77) |

Due to net losses for each of the years ended December 31, 2014, 2013 and 2012, 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:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Redeemable convertible preferred stock: | | | |
| Series A preferred stock | — | 7,908 | 7,908 |
| Series B preferred stock | — | 1,818 | 1,818 |
| Series C preferred stock | — | 2,184 | — |
| Junior preferred stock | — | 1,251 | 1,251 |
| Stock options and restricted stock units | 6,139 | 5,422 | 4,765 |
| Total anti-dilutive common share equivalents | 6,139 | 18,583 | 15,742 |

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2017. Early adoption is not permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through February 12, 2015, the date the financial statements were issued.

Table of Contents

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

3. 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. The carrying values of the Company's debt instruments approximated their fair value based on rates currently available to the Company.

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.

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, 2014:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| Cash Equivalents: | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market funds | $17,865 | $17,865 | $— | $— |
| Certificates of deposit | 1,456 | — | 1,456 | — |
| | $19,321 | $17,865 | $1,456 | $— |

| Investments: | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| U.S. government agency bonds | $7,502 | $— | $7,502 | $— |

| | | | | |
|---|---|---|---|---|
| Corporate bonds and commercial paper | 6,192 | — | 6,192 | — |
| Certificates of deposit | 7,262 | — | 7,262 | — |
| | $20,956 | $— | $20,956 | $— |

All Company assets with fair values measured on a recurring basis, which consists only of cash and cash equivalents, as of December 31, 2013 were classified as Level 1 assets.

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

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

4. Cash, Cash Equivalents and Investments

The Company's cash, cash equivalents and investments as of December 31, 2014 and 2013 consisted primarily of cash, U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposits and money market funds.

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

As of December 31, 2014 and 2013, the Company's cash was $48.7 million and $18.7 million, respectively.

A summary of the cash equivalents and investments as of December 31, 2014 is as follows:

| Cash Equivalents: | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Money market funds | $17,865 | $— | $— | $17,865 |
| Certificates of deposit | 1,456 | — | — | 1,456 |
| | $19,321 | $— | $— | $19,321 |

| Investments: | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. government agency bonds | $7,508 | $— | $(6) | $7,502 |
| Corporate bonds and commercial paper | 6,200 | — | (8) | 6,192 |
| Certificates of deposit | 7,262 | — | — | 7,262 |
| | $20,970 | $— | $(14) | $20,956 |

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 consolidated balance sheets.

F-17

Table of Contents

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

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:

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Due within one year or less | $9,095 | $— |
| Due after one year through five years | 11,861 | — |
| Total | $20,956 | $— |

The Company has certain available-for-sale investments in a gross unrealized loss position, all of which have been in such position for less than twelve months. The Company reviews its debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other than temporary decline in fair value. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer and its intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment's amortized-cost basis. If the Company determines that an other than temporary decline exists in one of these investments, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized to other income, net in the consolidated statements of comprehensive loss. Any portion not related to credit loss would be included in accumulated other comprehensive loss. Because the Company does not intend to sell any investments which have an unrealized loss position at this time, and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider the investments with unrealized loss positions to be other than temporarily impaired as of December 31, 2014.

The following table shows the fair values and the gross unrealized losses of these available-for-sale investments aggregated by investment category as of as of December 31, 2014:

| | Fair Value | Gross Unrealized Loss | |
|---|---|---|---|
| U.S. government agency bonds | $7,508 | $(6 | ) |
| Corporate bonds and commercial paper | 6,200 | (8 | ) |
| Total | $13,708 | $(14 | ) |

The Company did not have any available-for-sale investments as of December 31, 2013.

5. Deferred Solution and Other Costs

Deferred solution and other costs, current portion and net of current portion, consisted of the following:

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Deferred solution costs | $3,585 | $2,174 |
| Deferred commissions | 1,475 | 950 |
| Deferred solution and other costs, current portion | $5,060 | $3,124 |
| Deferred solution costs | $1,684 | $1,721 |
| Deferred commissions | 5,475 | 3,637 |
| Deferred solution and other costs, net of current portion | $7,159 | $5,358 |

F-18

Table of Contents

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

6. Property and Equipment

Property and equipment consisted of the following:

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Computer hardware and equipment | $13,370 | $8,917 |
| Purchased software and licenses | 5,759 | 3,501 |
| Furniture and fixtures | 3,116 | 3,014 |
| Leasehold improvements | 4,064 | 4,020 |
| | 26,309 | 19,452 |
| Accumulated depreciation | (7,788) | (4,621) |
| Property and equipment | $18,521 | $14,831 |

Depreciation expense, including amortization of assets held under capital leases, was $4.0 million, $2.9 million and $1.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Property and equipment included $3.2 million for assets acquired under capital leases at each of December 31, 2014 and 2013.

7. Accrued Liabilities

Accrued liabilities consisted of the following:

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Accrued data center equipment purchases | $3,228 | $512 |
| Accrued data center software purchases | 1,483 | 467 |
| Accrued transaction processing fees | 1,537 | 3,761 |
| Accrued professional services | 730 | 721 |
| Other | 2,290 | 1,827 |
| Total accrued liabilities | $9,268 | $7,288 |

8. Debt

In April 2013 the Company entered into a secured credit facility agreement, or Credit Facility, with Wells Fargo Bank, National Association, or Wells Fargo, which the Company and Wells Fargo subsequently amended on March 24, 2014 and again on August 11, 2014. The Credit Facility, as amended, provides for a line of credit of up to $25.0 million, with an accordion feature, or Accordion Feature, allowing the Company to increase its maximum borrowings by up to an additional $25.0 million, subject to certain conditions and limitations, including that borrowings at any time shall be limited to 75% of the Company's trailing twelve-month recurring revenues. Access to the total borrowings available under the Credit Facility is restricted based on covenants related to the Company's minimum liquidity and adjusted EBITDA. Amounts borrowed under the Credit Facility accrue interest, at the Company's election at either: (i) the per annum rate equal to the LIBOR rate plus an applicable margin; or (ii) the current base rate plus the greater of the U.S. Federal Funds rate plus one percentage point, the one-month LIBOR plus one percentage point, or the lending financial institution's prime rate. The Company pays a monthly fee based on the total unused borrowings balance, an annual administrative fee and the initial closing fee, which is paid in three equal annual installments over the first three years of the Credit Facility. The Accordion Feature expires in October 2016, at which time maximum borrowings under the Facility are reduced to $25.0 million, and the Credit Facility matures in April 2017, at which time any outstanding borrowings and accrued interest become payable. In April 2013, the Company drew an advance on the Credit Facility of $2.5 million to pay off its existing loan and security agreement with another institution. In June 2013, the Company drew an advance on the Credit Facility of $3.9 million to fund capital expenditures and secured a letter of credit

F-19

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

for the benefit of the landlord of its new corporate headquarters in the amount of $3.0 million. On February 26, 2014, the Company drew an advance of $12.5 million on the Credit Facility, which was subsequently repaid in full on March 17, 2014.

On March 24, 2014, the Company entered into Amendment Number One to the Credit Facility in connection with, and effective upon, the closing of the Company's initial public offering of shares of its common stock, or IPO, which occurred on March 25, 2014. The amendment primarily modified the definition of "Change of Control" in the Credit Facility. On April 22, 2014, the Company paid $4.2 million on the Credit Facility.

On August 11, 2014, the Company entered into Amendment Number Two to the Credit Facility, which modified the Credit Facility to add the Accordion Feature and modified or eliminated certain of the Company's financial covenants and fees it owes under the Credit Facility. On September 5, 2014, the Company paid $2.0 million on the Credit Facility.

As of December 31, 2014, the Company had no borrowings and only a secured letter of credit of $3.0 million against the Credit Facility, leaving an available balance of approximately $22.0 million, and the interest rate applicable to the Credit Facility was 4.7%. The Credit Facility is collateralized by substantially all of the Company's assets and requires that the Company maintain certain financial covenants as provided in the Credit Facility. The Company was in compliance with all financial covenants as of December 31, 2014.

9. Commitments and Contingencies

Operating and Capital Lease Commitments

The Company leases office space for its corporate headquarters in Austin, Texas under a non-cancelable operating lease that expires in April 2021 and a regional sales office in Atlanta, Georgia under a non-cancelable operating lease that expires in January 2016. In addition, the Company leases office space for its previous corporate headquarters in Austin, Texas under a non-cancelable operating lease that expires in March 2015. All of the rentable space covered by this lease has been sublet to a tenant for substantially all of the remainder of the lease. Rent expense under operating leases was $1.0 million, $1.4 million, and $0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. In 2013, the Company moved to its current headquarters. As a result, the Company vacated its former leased headquarters and recorded an estimated unoccupied lease charge of $0.2 million for the remaining contractual lease payments less estimated sublease income.

New Facilities Lease

On July 18, 2014, the Company entered into an office lease agreement, or the Lease, with CREF Aspen Lake Building II, LLC to lease approximately 70,000 rentable square feet, or the Premises, of an office building to be located immediately adjacent to the Company's current headquarters in order to expand the Company's headquarters. The Lease provides for phased commencement dates, with commencement of the first phase covering approximately 55,000 rentable square feet anticipated to occur on November 1, 2015, or the Initial Commencement Date, with the remaining space becoming available nine months thereafter. The actual commencement dates are subject to timely completion of the construction of the Premises. The term of the Lease commences on the Initial Commencement Date and runs 124 months, with a five year renewal option, and the rent obligations under the Lease begin with rents of $98 per month, which escalate over the course of the Lease to $160 per month in the final four months of the Lease's term.

The Company has entered into various capital lease arrangements to obtain property and equipment for its data center and corporate operations. These agreements expire over various terms from March 2015 through May 2025 and the leases are secured by the underlying leased property and equipment.

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

Future minimum payments required under capital and operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2014 were as follows:

| | Capital Leases | Operating Leases |
|---|---|---|
| Year Ended December 31, | | |
| 2015 | $418 | $2,054 |
| 2016 | 164 | 3,023 |
| 2017 | 4 | 3,289 |
| 2018 | — | 3,371 |
| 2019 | — | 3,453 |
| Thereafter | — | 13,446 |
| Total minimum lease payments | 586 | $28,636 |
| Less: imputed interest | (11) | |
| Less: current portion | (408) | |
| Capital lease obligations, net of current portion | $167 | |

Contractual Commitments

The Company has non-cancelable contractual commitments related to third-party products, co-location fees, other product costs and data center hardware and software purchases. The Company is party to several purchase commitments for third-party products that contain both a contractual minimum obligation and a variable obligation based upon usage or other factors which can change on a monthly basis. The estimated amounts for usage and other factors are not included within the table below.

Future minimum contractual commitments that have initial or remaining non-cancelable terms in excess of one year were as follows:

| | Contractual Commitments |
|---|---|
| Year Ended December 31, | |
| 2015 | $ 10,465 |
| 2016 | 6,382 |
| 2017 | 4,464 |
| 2018 | 4,232 |
| 2019 | 4,092 |
| Thereafter | 4,092 |
| Total commitments | $ 33,727 |

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.

Table of Contents

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

10. Stockholder's Equity
Initial Public Offering

On March 25, 2014, the Company completed its IPO of 7,761 shares of common stock at $13.00 per share. The total shares sold in the IPO included 1,511 shares sold by selling stockholders. After deducting the payment of underwriters' discounts and commissions and offering costs, the net proceeds to the Company from the sale of shares in the offering were approximately $72.6 million.

Underwriter's Exercise Of Option to Purchase Additional Shares

On April 2, 2014, pursuant to the terms of the Company's IPO, which occurred on March 25, 2014, the underwriters exercised their option to purchase an additional 1,164 shares to cover over-allotments. After deducting the payment of underwriters' discounts and commissions and offering costs, the Company received net proceeds from the sale of shares totaling approximately $13.7 million.

Conversion of Redeemable Common and Preferred Stock

Immediately prior to the closing of the IPO, which occurred on March 25, 2014, each share of the Company's outstanding preferred, junior preferred and redeemable common stock was converted into one share of undesignated common stock. The following table presents the conversion of all classes of stock on March 25, 2014:

| | Prior to Conversion | Subsequent to Conversion |
|---|---|---|
| Convertible preferred stock | | |
| Series A | 7,908 | — |
| Series B | 1,818 | — |
| Series C | 2,605 | — |
| Redeemable common stock | 3,829 | — |
| Junior preferred stock | 1,251 | — |
| Undesignated common stock | — | 17,412 |

11. 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.
A total of 1,850 shares of the Company's common stock was initially authorized and reserved for issuance under the 2014 Plan. This reserve will automatically increase on January 1, 2015 and each subsequent anniversary 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. This reserve is automatically increased to include any outstanding shares under the Company's 2007 Stock Plan, or 2007 Plan, at the time of its termination or issuable upon expiration or termination of options granted under the Company's 2007 Plan that expire or terminate without having been exercised in full. Pursuant to the terms of the 2014 Plan, 107 shares available for future issuance under the 2007 Plan were transferred to the 2014 Plan, providing a total of 1,957

shares of common stock allocated for issuance under the 2014 Plan. In addition, 49 shares have been returned to the 2014 Plan as a result of termination of options that expired or terminated without having been exercised under the previously terminated 2007 Plan, resulting in a total of 2,006 shares available for issuance under the 2014 Plan. As of December 31, 2014, options to purchase a total of 606 shares of common stock have been granted under the 2014 Plan, 7 shares have been returned to the 2014 Plan as a result of termination of options that expired or

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

terminated without having been exercised, and 1,407 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. In February 2014, the board of directors, under the authority granted to it by the 2007 Plan, increased the number of shares available to be granted under the plan by 1,400 shares, and as of December 31, 2014, a total of 9,172 shares of common stock were allocated for issuance under the plan. Upon the completion of the Company's IPO in March 2014, the board of directors terminated the 2007 Plan in connection with the IPO and pursuant to the terms of the 2014 Plan, 107 shares that were available for future issuance under the 2007 Plan at such time were transferred to the 2014 Plan. No shares remain available for future issuance of awards under the 2007 Plan. The 2007 Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the 2007 Plan. Shares of common stock that are issued and were available for issuance under the 2007 Plan consist of authorized, but unissued or reacquired shares of common stock or any combination thereof.
Stock Options

The following summarizes the assumptions used for estimating the fair value of stock options granted during the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Risk-free interest rate | 1.2 - 1.8% | 0.7 - 2.2% | 0.7 - 1.1% |
| Expected life (in years) | 3.8 - 6.1 | 4.8 - 6.9 | 4.8 - 6.3 |
| Expected volatility | 45.1 - 46.8% | 46.4 - 49.4% | 52.0 - 52.5% |
| Dividend yield | — | — | — |
| Weighted-average grant date fair value per share | $5.63 | $3.15 | $2.65 |

Stock option activity was as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance as of January 1, 2012 | 5,022 | $1.12 |
| Granted | 1,064 | 5.73 |
| Exercised | (42) | 0.41 |
| Forfeited | (312) | 1.84 |
| Balance as of December 31, 2012 | 5,732 | 1.94 |
| Granted | 834 | 7.69 |
| Exercised | (738) | 0.59 |
| Forfeited | (406) | 5.31 |
| Balance as of December 31, 2013 | 5,422 | 2.76 |
| Granted | 2,331 | 10.10 |
| Exercised | (1,583) | 1.27 |
| Forfeited | (59) | 7.56 |
| Balance as of December 31, 2014 | 6,111 | $5.90 |

Table of Contents

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

The summary of stock options outstanding as of December 31, 2014 is as follows:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) |
| $0.29 - $0.35 | 919 | $0.33 | 3.2 | 919 | $0.33 | 3.2 |
| $0.54 - $0.84 | 477 | 0.72 | 4.8 | 477 | 0.72 | 4.8 |
| $1.74 - $3.10 | 1,094 | 2.80 | 6.3 | 866 | 2.73 | 6.2 |
| $4.00 - $7.82 | 1,312 | 6.89 | 5.6 | 572 | 6.48 | 5.7 |
| $8.35 | 1,737 | 8.35 | 6.1 | — | — | — |
| $13.00 - $19.44 | 572 | 15.41 | 6.7 | 21 | 13.00 | 6.2 |
| | 6,111 | $5.90 | 5.5 | 2,855 | $2.44 | 4.9 |

Restricted Stock Units

The Company’s restricted stock units vest over a four-year period and upon vesting, the vested shares are issued to the recipient of the restricted stock units.

The summary of restricted stock unit activity is as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested as of January 1, 2014 | — | $— |
| Granted | 28 | 19.44 |
| Vested | — | — |
| Forfeited | — | — |
| Nonvested as of December 31, 2014 | 28 | $19.44 |

The aggregate intrinsic value of stock options exercised during each of the years ended December 31, 2014, 2013 and 2012 was $17.3 million, $4.8 million and $0.2 million, respectively. The total fair value of stock options vested during each of the years ended December 31, 2014, 2013 and 2012 was $2.2 million, $1.2 million, and $0.8 million, respectively.

As of December 31, 2014, total unrecognized stock-based compensation expense, adjusted for estimated forfeitures, related to stock options was $14.0 million, which the Company expects to recognize over the next 3 years, and total unrecognized stock-based compensation expense, adjusted for estimated forfeitures, related to restricted stock units was $0.5 million, which the Company expects to recognize over the next 3.9 years.

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

12. Provision for Income Taxes

The components of the Company's provision for income taxes from continuing operations were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Current taxes: | | | |
| Federal | $— | $— | $— |
| State | 67 | 52 | 162 |
| Total current taxes | $67 | $52 | $162 |
| Deferred taxes: | | | |
| Federal | $— | $— | $— |
| State | 4 | 3 | 2 |
| Total deferred taxes | 4 | 3 | 2 |
| Provision for income taxes | $71 | $55 | $164 |

As of December 31, 2014, the Company had federal net operating loss carryforwards of approximately $69.9 million, state tax credits of approximately $0.2 million and federal alternative minimum tax credits of $0.1 million. The net operating loss carryforwards will expire at various dates beginning in 2026 if not utilized. The state tax credits expire in 2027 if not utilized. The alternative minimum tax credits have an indefinite carryforward period.

Federal and state laws impose restrictions on the utilization of net operating loss carryforwards and research and development credit carryforwards in the event of a change in ownership of the Company, which constitutes an "ownership change" as defined by Internal Revenue Code Sections 382 and 383. Should there be an ownership change in the future, the Company's ability to utilize existing carryforwards could be substantially restricted.

Deferred income taxes reflect the net 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. The Company has established a valuation allowance due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history. During the year ended December 31, 2014, the valuation allowance increased by $6.4 million.

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

The Company's deferred tax assets and deferred tax liabilities were as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Deferred tax assets: | | |
| NOL and credit carryforwards | $21,328 | $16,340 |
| Deferred revenue | 2,657 | 1,596 |
| Accrued expenses and other | 3,386 | 3,295 |
| Stock-based compensation | 1,107 | 209 |
| Total deferred tax assets | 28,478 | 21,440 |
| Deferred tax liabilities: | | |
| Deferred expenses | (5,128) | (3,924) |
| Depreciation and amortization | (2,972) | (3,573) |
| Total deferred tax liabilities | (8,100) | (7,497) |
| Deferred tax assets less tax liabilities | 20,378 | 13,943 |
| Less: valuation allowance | (20,266) | (13,828) |
| Net deferred tax asset | $112 | $115 |

The Company had $9.9 million of excess stock deductions which are not included in deferred tax assets. The tax benefit from these deductions will increase additional paid-in capital when they are deemed realized under the "with and without" method.

The Company's provision for income taxes from continuing operations differs from the amount computed by applying the statutory federal income tax rate of 34% primarily as a result of the following:

| | Year Ended December 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| Income tax at U.S. statutory rate | 34.0 % | 34.0 % | 34.0 % |
| Effect of: | | | |
| Increase in deferred tax valuation allowance | (32.9) | (32.7) | (31.5) |
| State taxes, net of federal benefit | 1.5 | 1.4 | (0.7) |
| Other permanent items | (3.0) | (3.0) | (4.0) |
| Income tax provision effective rate | (0.4)% | (0.3)% | (2.2)% |

The Company files income tax returns in the U.S. federal jurisdiction and several state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2011. Operating losses generated in years prior to 2011 remain open to adjustment until the statute of limitations closes for the tax year in which the net operating losses are utilized. The tax years 2011 through 2014 remain open to examination by all major taxing jurisdictions to which the Company is subject, though the Company is not currently under examination by any major taxing jurisdiction.

The Company had not recorded any tax reserves related to uncertain tax positions as of December 31, 2014, 2013 and 2012. The Company's policy is to accrue interest and penalties related to uncertain tax positions as a component of income tax expense. For the years ended December 31, 2014, 2013 and 2012, the Company did not incur any interest or penalties.

Table of Contents

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

13. Employee Benefit Plan

In January 2009, the Company adopted a 401(k) profit-sharing plan, or 401(k) Plan, covering substantially all employees. Employees can contribute between 1% and 90% of their total earnings. The 401(k) Plan also provides for employer contributions to be made at the Company's discretion. As of December 31, 2014, the Company had not made any discretionary contributions.

14. Discontinued Operations

On March 1, 2013, the Company distributed all of the shares of a subsidiary to the Company's stockholders in a spin-off. However, since all shares of the subsidiary were distributed in 2013, the Company's consolidated statements of comprehensive loss and statements of cash flows have been presented to show the discontinued operations of the subsidiary separately from continuing operations for all periods presented. Since the transaction was between entities under common control, the distribution of the shares of the subsidiary did not result in a gain or loss on distribution as it was recorded at historical carrying values.

15. Segments and Geographic Information

All revenue-generating activities are directly related to the sale, implementation and support of the Company's solutions in a single operating segment. The Company's chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. All of the Company's principal operations, assets and decision-making functions are located in the United States.

16. Related Parties

For the years ended December 31, 2014, 2013 and 2012, the Company recorded revenues from a related-party customer of $0.4 million, $0.3 million and $0.3 million, respectively.

For the year ended December 31, 2012, the Company paid $0.1 million to related parties for professional services.

Table of Contents

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

17. Selected Quarterly Financial Data (unaudited)
Selected summarized quarterly financial information for the years ended 2014 and 2013 is as follows:

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2013 | June 30, 2013 | September 30, 2013 | December 31, 2013 | March 31, 2014 | June 30, 2014 | September 30, 2014 | December 31, 2014 |
| Revenues | $12,834 | $14,044 | $14,325 | $15,669 | $16,834 | $19,158 | $20,989 | $22,148 |
| Cost of revenues | 7,807 | 8,408 | 9,167 | 10,879 | 10,212 | 10,830 | 12,143 | 12,869 |
| Gross profit | 5,027 | 5,636 | 5,158 | 4,790 | 6,622 | 8,328 | 8,846 | 9,279 |
| Operating expenses: | | | | | | | | |
| Sales and marketing | 3,060 | 4,138 | 4,599 | 4,929 | 5,509 | 6,032 | 5,642 | 5,886 |
| Research and development | 1,866 | 2,152 | 2,259 | 2,752 | 2,736 | 2,787 | 3,155 | 3,408 |
| General and administrative | 2,335 | 2,776 | 3,207 | 3,424 | 3,718 | 4,058 | 4,574 | 4,641 |
| Unoccupied lease charges | — | 148 | 88 | — | — | — | — | — |
| Total operating expenses | 7,261 | 9,214 | 10,153 | 11,105 | 11,963 | 12,877 | 13,371 | 13,935 |
| Loss from operations | (2,234) | (3,578) | (4,995) | (6,315) | (5,341) | (4,549) | (4,525) | (4,656) |
| Total other expense, net | (51) | (116) | (170) | (162) | (207) | (119) | (82) | (84) |
| Loss before income taxes | (2,285) | (3,694) | (5,165) | (6,477) | (5,548) | (4,668) | (4,607) | (4,740) |
| Provision for income taxes | (5) | (14) | (14) | (22) | (18) | (15) | (18) | (20) |
| Loss from continuing operations | (2,290) | (3,708) | (5,179) | (6,499) | (5,566) | (4,683) | (4,625) | (4,760) |
| Loss from discontinued operations, net of tax | (199) | — | — | — | — | — | — | — |
| Net loss | $(2,489) | $(3,708) | $(5,179) | $(6,499) | $(5,566) | $(4,683) | $(4,625) | $(4,760) |
| | | | | | | | | |
| Reconciliation of net loss to adjusted EBITDA: | | | | | | | | |
| Net Loss | $(2,489) | $(3,708) | $(5,179) | $(6,499) | $(5,566) | $(4,683) | $(4,625) | $(4,760) |
| Depreciation and amortization | 638 | 624 | 809 | 900 | 999 | 1,031 | 1,092 | 961 |
| Stock-based compensation expense | | | | | | | | |
| Cost of revenues | 61 | 61 | 70 | 72 | 126 | 147 | 159 | 191 |
| Sales and marketing | 39 | 60 | 81 | 94 | 167 | 187 | 189 | 231 |
| Research and development | 59 | 66 | 64 | 68 | 107 | 122 | 131 | 167 |
| General and administrative | 175 | 189 | 197 | 249 | 518 | 612 | 622 | 894 |
| Provision for income taxes | 5 | 14 | 14 | 22 | 18 | 15 | 18 | 20 |
| Other expense, net | 51 | 116 | 170 | 162 | 207 | 119 | 82 | 84 |
| Unoccupied lease charge | — | 148 | 88 | — | — | — | — | — |
| Loss from discontinued operations, net of tax | 199 | — | — | — | — | — | — | — |
| Adjusted EBITDA | $(1,262) | $(2,430) | $(3,686) | $(4,932) | $(3,424) | $(2,450) | $(2,332) | $(2,212) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Registered users [1] | 2,609 | 2,900 | 2,956 | 3,124 | 3,447 | 3,941 | 4,123 | 4,340 |

[1]Represents registered users at the end of the period.

F-28

Table of Contents

Exhibit Index

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| Exhibit Number | Description | Form | Filing No. | Filing Date | Exhibit No. | Filed / Furnished Herewith |
| 2.1 | Agreement and Plan of Reorganization, dated July 27, 2007, by and among the Registrant, Q2 Acquisition Corporation, Q2 Software, Inc., and RHS Investments, L.P. | S-1 | 333- 193911 | 2/12/2014 | 2.1 | |
| 2.2 | Agreement and Plan of Reorganization, dated July 27, 2007, by and among the Registrant, Cardinal Acquisition Corporation, Cardinal Software, Inc. and RHS Investments, Inc. | S-1 | 333- 193911 | 2/12/2014 | 2.2 | |
| 2.3 | Asset Purchase Agreement, dated June 11, 2010, by and between Cardinal Software Inc., ITS, Inc., and ITS Acquisition Sub, Inc. | S-1 | 333- 193911 | 2/12/2014 | 2.3 | |
| 2.4 | Separation and Distribution Agreement, dated March 1, 2013, by and between the Registrant, Q2 Software, Inc., CB Network Holdings, Inc. and CBANC Network, Incorporated | S-1 | 333- 193911 | 2/12/2014 | 2.4 | |
| 3.1 | Fourth Amended and Restated Certificate of Incorporation of the Registrant | S-1/A | 333- 193911 | 3/6/2014 | 3.2 | |
| 3.2 | Amended and Restated Bylaws of the Registrant | S-1/A | 333- 193911 | 3/6/2014 | 3.4 | |
| 4.1 | Third Amended and Restated Investors' Rights Agreement, dated March 1, 2013 | S-1 | 333- 193911 | 2/12/2014 | 4.1 | |
| 10.1 | Form of Indemnification Agreement for directors and officers | S-1/A | 333- 193911 | 2/25/2014 | 10.1 | |
| 10.2.1 † | 2007 Stock Plan, as amended | S-1/A | 333- 193911 | 2/25/2014 | 10.2.1 | |
| 10.2.2 † | Form of Stock Option Agreement under the 2007 Stock Plan | S-1 | 333- 193911 | 2/12/2014 | 10.2.2 | |
| 10.2.3 † | Form of Stock Option Agreement for Executive Officers under the 2007 Stock Plan | S-1 | 333- 193911 | 2/12/2014 | 10.2.3 | |
| 10.2.4 † | Form of Stock Option Agreement for Directors under the 2007 Stock Plan | S-1 | 333- 193911 | 2/12/2014 | 10.2.4 | |
| 10.3.1 | Credit Agreement, dated April 11, 2013, by and among Wells Fargo Bank, National | S-1 | 333- 193911 | 2/12/2014 | 10.3.1 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Association, as administrative agent for the lenders named therein, the Registrant, and Q2 Software, Inc. | | | | | |
| 10.3.2 | | Amendment Number One to Credit Agreement, dated March 24, 2014, by and among Wells Fargo Bank, National Association, as administrative agent for the lenders named therein, the Company, and the Subsidiary | 8-K | 001-36350 | 3/28/2014 | 10.1 | |
| 10.3.3 | | Amendment Number Two to Credit Agreement, dated August 11, 2014, by and among Wells Fargo Bank, National Association, as administrative agent for the lenders named therein, the Company, and the Subsidiary | 10-Q | 001-36350 | 8/12/2014 | 10.1 | |
| 10.3.4 | | Guaranty and Security Agreement, dated April 11, 2013, by and among Wells Fargo Bank, National Association, as administrative agent for the lenders named therein, the Registrant, and Q2 Software, Inc. | S-1 | 333- 193911 | 2/12/2014 | 10.3.2 | |
| 10.3.5 | | Patent Security Agreement, dated April 11, 2013, by and among Wells Fargo Bank, National Association, as administrative agent for the lenders named therein, the Registrant, and Q2 Software, Inc. | S-1 | 333- 193911 | 2/12/2014 | 10.3.3 | |
| 10.4.1 | | Lease Agreement, dated November 20, 2012, by and among the Q2 Software, Inc. and 13785 Research Blvd, LLC | S-1 | 333- 193911 | 2/12/2014 | 10.4 | |
| 10.4.2 | | Lease Agreement, dated July 18, 2014, by and among Q2 Software, Inc. and CREF Aspen Lake Building II, LLC | 8-K | 001-36350 | 7/23/2014 | 10.1 | |
| 10.5 | † | Amended and Restated Employment Agreement, dated February 20, 2014, by and among the Registrant and Matthew P. Flake | S-1/A | 333- 193911 | 2/25/2014 | 10.5 | |
| 10.7 | † | Employment Agreement, dated February 20, 2014, by and among the Registrant and Jennifer N. Harris | | | | | * |
| 10.8 | † | Employment Agreement, dated February 20, 2014, by and among the Registrant and Adam D. Anderson | | | | | * |

| Exhibit Number | | Description | Incorporated by Reference Form | Filing No. | Filing Date | Exhibit No. | Filed / Furnished Herewith |
|---|---|---|---|---|---|---|---|
| 10.9 | | 2014 Equity Incentive Plan and forms of agreements thereunder | S-1/A | 333- 193911 | 3/6/2014 | 10.9 | |
| 10.10 | † | Forms of Restricted Stock Units Agreements under the Registrant's 2014 Equity Incentive Plan. | 10-Q | 001-36350 | 11/10/2014 | 10.2 | |
| 10.11 | † | 2014 Employee Stock Purchase Plan | S-1/A | 333- 193911 | 3/6/2014 | 10.10 | |
| 10.12 | | Master Service Agreement dated October 18, 2012, by and among the Registrant and ViaWest, Inc. | S-1 | 333- 193911 | 2/12/2014 | 10.11 | |
| 10.13 | | Master Service Agreement dated January 11, 2010, by and among the Registrant and Cyrus Networks, LLC | S-1 | 333- 193911 | 2/12/2014 | 10.12 | |
| 10.13.1 | | Service Level Agreement dated January 11, 2010, by and among the Registrant and Cyrus Networks, LLC | S-1 | 333- 193911 | 2/12/2014 | 10.12.1 | |
| 21.1 | | List of Subsidiaries of the Registrant | S-1 | 333- 193911 | 2/12/2014 | 21.1 | |
| 23.1 | | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm | | | | | * |
| 24.1 | | Power of Attorney (see page 63 to this Annual Report on Form 10-K). | | | | | * |
| 31.1 | | Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. | | | | | * |
| 31.2 | | Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. | | | | | * |
| 32.1 | | Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350 as adopted | | | | | # |

| | | |
|---|---|---|
| | pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. | |
| 32.2 | Certification of Principal Financial Officer Required under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. | # |
| 101.INS | XBRL Instance Document. | * |
| 101.SCH | XBRL Taxonomy Extension Schema. | * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. | * |
| 101.LAB | XBRL Taxonomy Extension Calculation Label Linkbase. | * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. | * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. | * |

* Filed herewith
# Furnished herewith
† Management contract, compensatory plan or arrangement