

HORIZON BANCORP /IN/  
Form SC 13G  
February 13, 2012

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 13G**

**Under the Securities Exchange Act of 1934**

**(Amendment No. )\***

**Horizon Bancorp**  
(Name of Issuer)  
**Common Stock**  
(Title of Class of Securities)  
**440407104**  
(CUSIP Number)

**December 31, 2011**

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

X Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 440407104

**1** NAME OF REPORTING PERSON

Manulife Financial Corporation

**2** CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\* (a)

N/A

**3** SEC USE ONLY

**4** CITIZENSHIP OR PLACE OF ORGANIZATION

Canada

**5** SOLE VOTING POWER

**6** -0- SHARED VOTING POWER

Number of

Shares

**7** -0- SOLE DISPOSITIVE POWER

Beneficially

Owned by

Each

**8** -0- SHARED DISPOSITIVE POWER

Reporting

Person

-0-

With

**9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**

None, except through its indirect, wholly-owned subsidiaries, Manulife Asset Management (North America) Limited and Manulife Asset Management (US) LLC

**10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\***

N/A

**11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**

See line 9 above.

**12 TYPE OF REPORTING PERSON\***

HC

**\*SEE INSTRUCTIONS**

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**CUSIP No. 440407104**

**1 NAME OF REPORTING PERSON**

Manulife Asset Management (North America) Limited

**2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\***

(a)

N/A

**3 SEC USE ONLY**

**4 CITIZENSHIP OR PLACE OF ORGANIZATION**

Canada

**5** SOLE VOTING POWER

**6** 63  
SHARED VOTING POWER

Number of

Shares

**7** -0-  
SOLE DISPOSITIVE POWER

Beneficially

Owned by

Each

**8** 63  
SHARED DISPOSITIVE POWER

Reporting

Person

-0-

With

**9** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

63

**10** CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

N/A

**11** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

0.001%

**12** TYPE OF REPORTING PERSON\*

IA

**\*SEE INSTRUCTIONS**

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**CUSIP No. 440407104**

**1 NAME OF REPORTING PERSON**

Manulife Asset Management (US) LLC

**2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\***

(a)

N/A

**3 SEC USE ONLY**

**4 CITIZENSHIP OR PLACE OF ORGANIZATION**

Delaware

**5 SOLE VOTING POWER**

421,365 (including 318,282 shares issuable upon exercise of warrants)

**6 SHARED VOTING POWER**

Number of

Shares

**7 -0- SOLE DISPOSITIVE POWER**

Beneficially

Owned by

Each

**8 421,365 (including 318,282 shares issuable upon exercise of warrants) SHARED DISPOSITIVE POWER**

Reporting

Person

-0-

With

**9** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

421,365 (including 318,282 shares issuable upon exercise of warrants)

**10** CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

N/A

**11** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

7.97% (including 318,282 shares issuable upon exercise of warrants)

**12** TYPE OF REPORTING PERSON\*

IA

**\*SEE INSTRUCTIONS**

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**CUSIP No. 440407104**

**1 NAME OF REPORTING PERSON**

John Hancock Regional Bank Fund

**2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\***

(a)

N/A

**3 SEC USE ONLY**

**4 CITIZENSHIP OR PLACE OF ORGANIZATION**

Massachusetts

**5** SOLE VOTING POWER

**6** -0-  
SHARED VOTING POWER

Number of

Shares

**7** -0-  
SOLE DISPOSITIVE POWER

Beneficially

Owned by

Each

**8** -0-  
SHARED DISPOSITIVE POWER

Reporting

Person

-0-

With

**9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON**

264,905 shares owned directly by the Fund (including 199,422 shares issuable upon exercise of warrants).  
Manulife Asset Management (US) LLC has sole voting and dispositive power over these shares.

**10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\***

N/A

**11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9**

5.12% (including 199,422 shares issuable upon exercise of warrants)

**12 TYPE OF REPORTING PERSON\***

IV

**\*SEE INSTRUCTIONS**

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Item 1(a) Name of Issuer:

Horizon Bancorp

Item 1(b) Address of Issuer's Principal Executive Offices:

515 Franklin Square  
Michigan City, Indiana 46360

Item 2(a) Name of Person Filing:

This filing is made on behalf of Manulife Financial Corporation ("MFC") and MFC's indirect, wholly-owned subsidiaries, Manulife Asset Management (North America) Limited ("MAM (NA)") and Manulife Asset Management (US) LLC ("MAM (US)"), and is also made on behalf of John Hancock Regional Bank Fund ("JH Regional Bank Fund").

Item 2(b) Address of Principal Business Office:

The principal business offices of MFC and MAM (NA) are located at 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5.

The principal business office of MAM (US) is located at 101 Huntington Avenue, Boston, Massachusetts 02199.

The principal business office of JH Regional Bank Fund is located at 601 Congress Street, Boston, Massachusetts 02210.

Item 2(c) Citizenship:

MFC and MAM (NA) are organized and exist under the laws of Canada.

MAM (US) is organized and exists under the laws of the State of Delaware.

JH Regional Bank Fund is organized and exists under the laws of the Commonwealth of Massachusetts.

Item 2(d) Title of Class of Securities:

Common Stock

Item 2(e) CUSIP Number:

440407104

Item 3 If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

MFC: (g)  a parent holding company or control person in accordance with §240.13d-1(b)(1)(ii)(G).

MAM (NA): (e)  an investment adviser in accordance with §240.13d-1(b)(1)(ii)(E).

MAM (US): (e)  an investment adviser in accordance with §240.13d-1(b)(1)(ii)(E).

JH Regional Bank Fund: (d)  an investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

Item 4 Ownership:

(a) Amount Beneficially Owned: MAM (NA) has beneficial ownership of 63 shares of Common Stock. MAM (US) has beneficial ownership of 421,365 shares of Common Stock (including 318,282 shares issuable upon exercise of warrants), of which JH Regional Bank Fund owns directly 264,905 shares (including 199,422 shares issuable upon exercise of warrants). Through its parent-subsiary relationship to MAM (NA) and MAM (US), MFC may be deemed to have beneficial ownership of these same shares.

(b) Percent of Class: Of the 4,969,466 shares outstanding as of February 9, 2012, according to the issuer's Agreement and Plan of Merger filed as an exhibit to the issuer's Current Report filed on Form 8-K on February 10, 2012, MAM (NA) held 0.001% and MAM (US) held 7.97% (including 318,282 shares issuable upon exercise of warrants), of which JH Regional Bank Fund held 5.12% (including 199,422 shares issuable upon exercise of warrants).

(c) Number of shares as to which the person has:

(i) sole power to vote or to direct the vote:

MAM (NA) and MAM (US) each has sole power to vote or to direct the voting of the shares of Common Stock beneficially owned by each of them.

(ii) shared power to vote or to direct the vote: -0-

(iii) sole power to dispose or to direct the disposition of:

MAM (NA) and MAM (US) each has sole power to dispose or to direct the disposition of the shares of Common Stock beneficially owned by each of them.

(iv) shared power to dispose or to direct the disposition of: -0-

Item 5 Ownership of Five Percent or Less of a Class:

Not applicable.

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

Not applicable.

Item 7 Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company or Control Person:

See Items 3 and 4 above.

Item 8 Identification and Classification of Members of the Group:

Not applicable.

Item 9 Notice of Dissolution of Group:

Not applicable.

Item 10 Certification:

By signing below the undersigned certifies that, to the best of its knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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**SIGNATURE**

After reasonable inquiry and to the best of its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

**Manulife Financial Corporation**

By: /s/ Kenneth G. Pogrinn

Name: Kenneth G. Pogrinn

Dated: February 13, 2012

Title: Attorney in Fact\*

**Manulife Asset Management (North America) Limited**

By: /s/ Kenneth G. Pogrinn

Name: Kenneth G. Pogrinn

Dated: February 13, 2012

Title: General Counsel and Secretary

**Manulife Asset Management (US) LLC**

By: /s/ William E. Corson

Name: William E. Corson

Dated: February 13, 2012

Title: Vice President and Chief Compliance Officer

**John Hancock Regional Bank Fund**

By: /s/ Francis V. Knox Jr.

Name: Francis V. Knox Jr.

Dated: February 13, 2012

Title: Vice President and Chief Compliance Officer

\* Signed pursuant to a Power of Attorney dated January 17, 2008 included as an Exhibit to Schedule 13G filed with the Securities and Exchange Commission by Manulife Financial Corporation on January 24, 2008.

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**EXHIBIT A**

**JOINT FILING AGREEMENT**

Manulife Financial Corporation, Manulife Asset Management (North America) Limited, Manulife Asset Management (US) LLC and John Hancock Regional Bank Fund agree that the Schedule 13G to which this Agreement is attached, relating to the Common Stock of Horizon Bancorp, is filed on behalf of each of them.

**Manulife Financial Corporation**

By: /s/ Kenneth G. Pogrinn

Name: Kenneth G. Pogrinn

Dated: February 13, 2012

Title: Attorney in Fact\*

**Manulife Asset Management (North America) Limited**

By: /s/ Kenneth G. Pogrinn

Name: Kenneth G. Pogrinn

Dated: February 13, 2012

Title: General Counsel and Secretary

**Manulife Asset Management (US) LLC**

By: /s/ William E. Corson

Name: William E. Corson

Dated: February 13, 2012

Title: Vice President and Chief Compliance Officer

**John Hancock Regional Bank Fund**

By: /s/ Francis V. Knox Jr.

Name: Francis V. Knox Jr.

Dated: February 13, 2012

Title: Vice President and Chief Compliance Officer

\* Signed pursuant to a Power of Attorney dated January 17, 2008 included as an Exhibit to Schedule 13G filed with the Securities and Exchange Commission by Manulife Financial Corporation on January 24, 2008.

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### *Operating Expenses*

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

#### *Sales and Marketing*

Sales and marketing expenses increased by \$6.3 million, or 37.9%, from \$16.7 million for the year ended December 31, 2013 to \$23.1 million for the year ended December 31, 2014. This increase was primarily attributable to a \$5.3 million increase in personnel costs due to the growth of our sales and marketing organizations. The increase in personnel costs includes a \$0.5 million increase in stock-based compensation expense allocated to sales and marketing for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a \$0.5 million increase in travel and entertainment costs due to increased employee travel to attract new customers and efforts to support our sales and marketing initiatives, a \$0.3 million increase in facilities and other overhead costs, a \$0.2 million increase in discretionary marketing spend as a result of increased advertising to drive brand awareness and expanded marketing efforts to attract new customers and retain and grow existing customers. We anticipate that sales and marketing expenses will continue to increase in absolute dollars in the future as we add personnel to support our revenue growth and as we increase discretionary marketing spend to attract new customers, retain and grow existing customers and drive brand awareness. We expect such expenses to decline as a percentage of our revenues over time as our revenues grow.

#### *Research and Development*

Research and development expenses increased by \$3.1 million, or 33.9%, from \$9.0 million for the year ended December 31, 2013 to \$12.1 million for the year ended December 31, 2014. This increase was primarily attributable to a \$2.8 million increase in personnel costs as a result of the growth in our research and development organization for continued enhancements to our solutions. The increase in personnel costs includes a \$0.3 million increase in stock-based compensation expense allocated to research and development for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. In addition, there was a \$0.3 million increase in facilities and other overhead costs. We anticipate that research and development expenses will increase in absolute dollars in the future as we continue to support and expand our platform and enhance our existing solutions.

#### *General and Administrative*

General and administrative expenses increased by \$5.2 million, or 44.7%, from \$11.7 million for the year ended December 31, 2013 to \$17.0 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily attributable to a \$4.0 million increase in personnel costs to support the growth of our business. The increase in personnel costs includes a \$1.8 million increase in stock-based compensation expense allocated to general and administrative expenses for the increase in the number of stock-based awards vesting during the period and the increased fair value of the awards vesting due to the increase in our stock price. The remaining

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increase was attributable to a \$0.8 million increase in corporate insurance expense due to our initial public offering in March 2014, a \$0.2 million increase in facilities and other overhead costs, a \$0.1 million increase in information technology and other corporate expenses associated with our continued efforts to enhance and improve our infrastructure, and a \$0.1 million increase in executive travel associated with developing relations with the investor community. We anticipate that general and administrative expenses will increase in absolute dollars in the future as a result of being a public company. General and administrative expenses include costs to comply with Section 404 of the Sarbanes-Oxley Act and other regulations governing public companies, increased costs of directors' and officers' liability insurance, increased professional services expenses and costs associated with enhanced investor relations activities. We expect such expenses to decline as a percentage of our revenues over time as our revenues grow.

*Unoccupied Lease Charges*

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

**Comparison of Years Ended December 31, 2012 and 2013***Revenues*

	Year Ended December 31,					
	2012		2013		Change	
	Amount	% of Revenues	Amount	% of Revenues	(\$)	(%)
Revenues	\$ 41,101	100.0%	\$ 56,872	100.0%	\$ 15,771	38.4%

Revenues increased by \$15.8 million, or 38.4%, from \$41.1 million for the year ended December 31, 2012 to \$56.9 million for the year ended December 31, 2013. Of this increase, \$12.7 million was generated from the growth in new registered users from a combination of strong client retention and growth from existing customers and the addition of registered users from new installed customers. The remaining \$3.1 million increase was generated from increases in the number of transactions processed using our solutions. In particular, we had 2.4 million and 3.1 million registered users as of December 31, 2012 and 2013, respectively. We had 334 installed customers at December 31, 2013 and 299 installed customers at December 31, 2012.

*Cost of Revenues*

	Year Ended December 31,					
	2012		2013		Change	
	Amount	% of Revenues	Amount	% of Revenues	(\$)	(%)
Cost of revenues	\$ 25,170	61.2%	\$ 36,261	63.8%	\$ 11,091	44.1%

Cost of revenues increased by \$11.1 million, or 44.1%, from \$25.2 million for the year ended December 31, 2012 to \$36.3 million for the year ended December 31, 2013. This increase was primarily attributable to a \$4.4 million increase in personnel costs due to our growth in the number of personnel who provide implementation and customer support and maintain our data centers and other technical infrastructure, including a \$0.2 million increase in reclassified research and development costs. Also, direct costs related to bill-pay transaction processing and other third-party intellectual property included in our solutions represented \$2.9 million of this increase as the number of new registered users and transactions processed on our solutions increased, co-location facility costs and depreciation of our data center assets increased by \$2.8 million as we expanded our data centers and other technical

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infrastructure to support our expanding customer base, and we incurred an additional \$1.0 million in facilities and other overhead costs.

We defer certain payroll costs directly related to the implementation of our solutions to the extent those costs are considered to be recoverable from future revenues. However, a substantial portion of our implementation costs are not eligible for deferral and, as a result, are expensed in the period incurred. Costs related to implementations that have been deferred are amortized over the same period in which the related revenue is recognized. Additionally, we invested in personnel, business processes and systems infrastructure to standardize our business processes and drive future efficiency in our implementations, customer support and data center operations.

*Operating Expenses*

	Year Ended December 31,					
	2012			2013		
	Amount	% of Revenues	Amount	% of Revenues	Change	
					(\$)	(%)
Sales and marketing	\$ 8,962	21.8%	\$ 16,726	29.4%	\$ 7,764	86.6%
Research and development	5,317	12.9	9,029	15.9	3,712	69.8
General and administrative	8,780	21.4	11,742	20.6	2,962	33.7
Unoccupied lease charges			236	0.4	236	N/A
<b>Total operating expenses</b>	<b>\$ 23,059</b>	<b>56.1%</b>	<b>\$ 37,733</b>	<b>66.3%</b>		

*Sales and Marketing*

Sales and marketing expenses increased by \$7.8 million, or 86.6%, from \$9.0 million for the year ended December 31, 2012, to \$16.7 million for the year ended December 31, 2013. This increase was primarily attributable to a \$5.1 million increase in personnel costs due to the growth of our sales and marketing organizations. Also, discretionary marketing spend increased by \$1.2 million as a result of increased advertising to drive brand awareness and expanded marketing efforts to attract new customers and retain and grow existing customers, travel and other miscellaneous expenses increased by \$0.7 million as a result of these activities, and we incurred a \$0.8 million increase in facilities and other overhead costs.

*Research and Development*

Research and development expenses increased by \$3.7 million, or 69.8%, from \$5.3 million for the year ended December 31, 2012, to \$9.0 million for the year ended December 31, 2013. This increase was attributable to a \$3.2 million increase in personnel costs as a result of the growth in our research and development organization for continued enhancements to our solutions, a \$0.3 million increase in facilities and other overhead costs and a \$0.2 million increase in travel and other development costs. We reclassified to cost of revenues an additional \$0.2 million of costs related to research and development personnel who perform services related to implementation and customer support.

*General and Administrative*

General and administrative expenses increased by \$3.0 million, or 33.7%, from \$8.8 million for the year ended December 31, 2012, to \$11.7 million for the year ended December 31, 2013. The increase in general and administrative expenses was attributable to a \$2.0 million increase in personnel costs to support the growth of our business and preparation for our initial public offering, a \$0.7 million increase in professional services costs related to accounting and tax services, legal services and other

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professional services related to internal systems implementations and a \$0.3 million increase in facilities and other overhead costs.

*Unoccupied Lease Charges*

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

**Quarterly Results of Operations**

The following tables show our unaudited consolidated quarterly statement of operations data for each of the eight quarters ended December 31, 2014, as well as the percentage of revenues for each line item shown. This information, other than with respect to the number of registered users, has been derived from our unaudited consolidated financial statements. Historical results are not necessarily indicative of future results, and operating results for a quarterly period are not necessarily indicative of the operating results for a full year. This information should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus.

	Mar. 31, 2013	Jun. 30, 2013	Sep. 30, 2013	Three months ended,				
				Dec. 31, 2013	Mar. 31, 2014	Jun. 30, 2014	Sep. 30, 2014	Dec. 31, 2014
	(in thousands)							
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)
Depreciation and amortization	638	624	809	900	999	1,031	1,092	961
Loss from discontinued operations, net of tax	199							
Stock-based compensation expenses:								
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

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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 charges		148	88					

Adjusted EBITDA	\$ (1,262)	\$ (2,430)	\$ (3,686)	\$ (4,932)	\$ (3,424)	\$ (2,450)	\$ (2,332)	\$ (2,212)
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Registered users(1)	2,609	2,900	2,956	3,124	3,447	3,941	4,123	4,340
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(1)

Represents registered users at the end of the period.

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	Three months ended,							
	Mar. 31, 2013	Jun. 30, 2013	Sep. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	Jun. 30, 2014	Sep. 30, 2014	Dec. 31, 2014
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	60.8	59.9	64.0	69.4	60.7	56.5	57.9	58.1
Gross margin	39.2	40.1	36.0	30.6	39.3	43.5	42.1	41.9
Operating expenses:								
Sales and marketing	23.9	29.5	32.1	31.5	32.7	31.5	26.9	26.6
Research and development	14.5	15.3	15.8	17.6	16.3	14.5	15.0	15.4
General and administrative	18.2	19.8	22.4	21.8	22.1	21.2	21.8	21.0
Unoccupied lease charges		1.0	0.6					
Total operating expenses	56.6	65.6	70.9	70.9	71.1	67.2	63.7	62.9
Loss from operations	(17.4)	(25.5)	(34.9)	(40.3)	(31.7)	(23.7)	(21.6)	(21.0)
Total other expense, net	(0.4)	(0.8)	(1.2)	(1.0)	(1.2)	(0.6)	(0.4)	(0.4)
Loss before income taxes	(17.8)	(26.3)	(36.1)	(41.3)	(33.0)	(24.4)	(21.9)	(21.4)
Provision for income taxes	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Loss from continuing operations	(17.9)	(26.4)	(36.2)	(41.5)	(33.1)	(24.4)	(22.0)	(21.5)
Loss from discontinued operations, net of tax	(1.5)							
Net loss	(19.4)	(26.4)	(36.2)	(41.5)	(33.1)	(24.4)	(22.0)	(21.5)
Depreciation and amortization	5.0	4.4	5.6	5.7	5.9	5.4	5.2	4.3
Loss from discontinued operations, net of tax	1.5							
Stock-based compensation expenses:								
Cost of revenues	0.5	0.4	0.5	0.6	0.7	0.8	0.8	0.9
Sales and marketing	0.3	0.4	0.6	0.6	1.0	1.0	0.9	1.0
Research and development	0.5	0.5	0.4	0.4	0.6	0.6	0.6	0.8
General and administrative	1.3	1.3	1.4	1.6	3.1	3.2	3.0	4.0
Provision for income taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expense, net	0.4	0.8	1.2	1.0	1.2	0.6	0.4	0.4
Unoccupied lease charges		1.1	0.6					
Adjusted EBITDA	(9.8)%	(17.3)%	(25.7)%	(31.5)%	(20.3)%	(12.8)%	(11.1)%	(10.0)%

Revenues increased sequentially in each of the quarters presented, primarily due to growth in the number and timing of new registered users, increases in the number of transactions using our solutions and sales of new solutions to our installed customers. Our number of installed customers increased from 299 as of December 31, 2012 to 361 as of December 31, 2014.

Throughout the periods presented, we significantly increased our hiring to facilitate our growth, increasing our number of employees from 308 at December 31, 2012 to 501 at December 31, 2014. We generally increase our capacity, particularly in the areas of sales and implementation and customer support, ahead of anticipated growth in new customers, which can result in lower margins in periods prior to realized revenue growth. Cost of revenues grew in absolute dollars over the periods shown, but fluctuated as a percentage of revenues based



principally on the level and timing of implementation and support activities and other related costs. In addition, cost of revenues for the quarter ended December 31, 2013 included a \$1.1 million one-time charge related to additional fees owed to a data center vendor regarding past use of intellectual property.

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Total expenses increased in each of the quarters presented due primarily to increased personnel-related expenses from additional headcount and related expenses and overhead. Our sales and marketing expenses fluctuated period-to-period as a percentage of revenues due to the hiring of new sales and marketing personnel, the number and timing of newly-installed customers in a period and the timing of significant marketing programs. We have historically held our annual client conference in the quarter ended June 30 and expensed the costs associated with the event during that quarter. Research and development expenses increased sequentially during the periods presented primarily as a result of increased personnel costs associated with our continued investments in new and enhanced solutions. General and administrative expenses also increased during the periods presented as we added personnel to support the growth in our business and prepare for our initial public offering.

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

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

**Liquidity and Capital Resources***Sources of Liquidity*

Since our inception, we have financed our operations primarily through the proceeds from the issuance of our preferred stock, issuance of common stock in our initial public offering, borrowings under credit facilities and cash flows from operations. At December 31, 2014, our principal sources of liquidity were cash, cash equivalents and investments of \$88.9 million and \$22.0 million of available borrowings under our credit facility.

*Cash Flows*

The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$ (3,009)	\$ (1,507)	\$ (5,286)
Investing activities	(2,606)	(11,309)	(26,735)
Financing activities	(637)	22,380	81,325
Net increase (decrease) in cash and cash equivalents	\$ (6,252)	\$ 9,564	\$ 49,304

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

For the year ended December 31, 2012, our net cash and cash equivalents used by operating activities of \$3.0 million consisted of a net loss of \$8.8 million, partially offset by \$1.0 million of cash provided by changes in operating assets and liabilities and \$5.9 million in adjustments for non-cash items. Increases in deferred revenues of \$4.3 million, offset by a \$2.0 million increase in accounts receivable, are the result of increases in customer prepayments and growth in the number of registered users and transactions processed on our solutions. Increases in deferred implementation costs and deferred solution and other costs of \$2.6 million and \$1.7 million, respectively are due to an increase in the number of new customers undergoing implementation during the period. Net increases in accounts payable and accrued liabilities of \$1.9 million and \$1.1 million, respectively, are attributable to increased spending in support of our expanding customer base and infrastructure growth. Non-cash items consisted primarily of \$1.7 million of depreciation and amortization expense due to growth in our fixed asset base and increased customer activity, \$1.9 million of amortization of deferred implementation and deferred solution and other costs and \$1.0 million of stock based compensation expense attributable to staffing increases and the related increase in option grants. We also incurred a non-cash charge of \$1.3 million from loss from discontinued operations offset by \$1.1 million in cash used in discontinued operations.

For the year ended December 31, 2013, our net cash and cash equivalents used by operating activities of \$1.5 million primarily consisted of a net loss of \$17.9 million, partially offset by \$8.6 million of cash provided by changes in operating assets and liabilities and \$8.0 million attributable to non-cash items. Increases in deferred revenues of \$9.7 million, offset by a \$3.3 million increase in accounts receivable, are the result of increases in customer prepayments and growth in the number of registered users and transactions processed on our solutions. Increases in deferred implementation costs and deferred solution and other costs of \$3.2 million and \$4.0 million, respectively, are due to an increase in the number of new customers for whom solutions were being implemented during the period. Net increases in accrued liabilities of \$5.5 million are attributable to increased spending in support of our expanding customer base and related growth in our technical infrastructure. Non-cash items consisted primarily of \$3.0 million of depreciation and amortization expense due to growth in our fixed asset base and data center and other technical infrastructure to support our customer growth, \$2.8 million of amortization of deferred implementation and deferred solution and other costs and \$1.6 million of stock based compensation expense attributable to staffing increases and the related increase in option grants.

For the year ended December 31, 2014, our net cash and cash equivalents used in operating activities were \$5.3 million, which consisted of a net loss of \$19.6 million, offset by cash inflows from changes in operating assets and liabilities of \$1.1 million and non-cash adjustments of \$13.3 million. Cash inflows were the result of a \$9.2 million increase in deferred revenue due to increased payments and deposits received from customers prior to the recognition of revenue from those related payments and a \$4.0 million decrease in accounts receivable due to the timing of billings at the end of the prior year and increased collection efforts. Cash outflows are the result of a \$9.2 million increase in deferred solution and implementation costs due to our increased customer growth and new and existing customers undergoing implementations during the period, a \$2.2 million decrease in accounts payable and accrued liabilities due to the timing of payments in support of our expanding customer base and related growth in our technical infrastructure and a net change in other assets and liabilities of \$0.7 million. Non-cash items consisted primarily of \$4.4 million of amortization of deferred implementation and deferred solution and other costs, \$4.1 million of depreciation and amortization expense due to growth in our fixed asset base and \$4.6 million of stock-based compensation expense.

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*Cash Flows from Investing Activities*

Our investing activities have consisted primarily of purchases of property and equipment to support our growth. Purchases of property and equipment may vary from period to period due to the timing of the expansion of our operations and data center and other technical infrastructure.

For the year ended December 31, 2012, net cash used in investing activities was \$2.6 million, of which \$1.8 million was for equipment purchases and \$0.4 million was for acquired technology and related intangible assets.

For the year ended December 31, 2013, net cash used in investing activities was \$11.3 million, of which \$11.1 million was for the purchase of property and equipment, and \$0.1 million was for acquired technology and related intangible assets. During the second quarter, we incurred capital expenditures related to our move to our new corporate offices. During the third quarter, we made significant investments in our data center and other technical infrastructure.

For the year ended December 31, 2014, net cash used in investing activities was \$26.7 million, consisting primarily of \$23.2 million for the purchase of investments, partially offset by \$2.2 million in maturities of investments, \$5.0 million for the purchase of property and equipment, and a \$0.7 million increase in restricted cash for the deposit securing the lease for the expansion of our corporate headquarters.

*Cash Flows from Financing Activities*

Our financing activities have consisted primarily of net proceeds from the issuance of common stock in our initial public offering, proceeds from the issuance of preferred stock prior to our initial public offering, proceeds from the exercises of options to purchase common stock, and payments on capital lease obligations as well as proceeds from, and repayments on, our credit facility.

For the year ended December 31, 2012, net cash used by financing activities was \$0.6 million, consisting primarily of \$0.7 million for payments on capital lease obligations.

For the year ended December 31, 2013, net cash provided by financing activities was \$22.4 million, consisting primarily of proceeds from the issuance of preferred stock and borrowings on our line of credit. We raised \$19.0 million, net of issuance costs, from the issuance of our Series C preferred stock, and increased our line of credit borrowings by \$3.7 million. We also received \$0.4 million from the exercise of stock options and made payments of \$0.7 million on capital lease obligations.

For the year ended December 31, 2014, net cash provided by financing activities was \$81.3 million, consisting primarily of proceeds from the completion of our initial public offering in March 2014. We received \$86.3 million in net proceeds from our initial public offering after deducting the payment of underwriters' discounts and commissions and offering costs. In addition, we made draws of \$12.5 million on our credit facility, and we received \$2.0 million from the exercise of stock options, which were partially offset by payments of \$18.7 million on our credit facility and \$0.7 million on capital lease obligations.

**Contractual Obligations and Commitments**

Our principal commitments consist of obligations under our outstanding credit agreement, non-cancelable capital and operating leases related to our facilities and equipment and minimum purchase commitments for third-party products, co-location fees, other product costs and data center hardware and software purchases. We are 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

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other factors are not included in the table below. The following table summarizes our contractual obligations and commitments at December 31, 2014:

	Payment due by period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	
(in thousands)					
<b>Contractual Obligations:</b>					
Interest payments line of credit	\$	\$ 13	\$	\$	\$ 13
Operating lease obligations	2,054	6,313	6,824	13,446	28,637
Capital lease obligations	418	168			586
Purchase commitments	10,465	10,846	8,324	4,092	33,727
Total	\$ 12,937	\$ 17,340	\$ 15,148	\$ 17,538	\$ 62,963

In April 2013, we entered into a secured credit facility with Wells Fargo which provides a line of credit of up to \$25.0 million and is described in Note 8 to our consolidated financial statements appearing elsewhere in this prospectus. The amount that can be borrowed under the line of credit is limited to the lesser of \$25.0 million or 75% of our trailing twelve-month recurring revenues. Access to the total borrowings available under the line of credit is restricted based on covenants related to our minimum liquidity, trailing twelve months recurring revenues and adjusted EBITDA. Amounts borrowed under the line of credit accrue interest, on our 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.

In August 2014, we entered into an amendment to our credit facility which modified the credit facility to add an accordion feature and modified or eliminated certain of our financial covenants and fees under the credit facility. The amendment also removed the requirement for us to maintain advances of any minimum amount. We pay 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 installments over the first three years of the credit facility. The credit facility matures in April 2017, at which time any outstanding borrowings and accrued interest become payable. As of December 31, 2014, we had no borrowings outstanding, only a secured letter of credit of \$3.0 million against the line, leaving an available balance of \$22.0 million. The line of credit is collateralized by substantially all of our assets and requires that we maintain certain financial covenants as defined in the credit facility, as amended. As of December 31, 2014, we were in compliance with all such covenants.

#### Off-Balance Sheet Arrangements

During the years ended December 31, 2012, 2013 and 2014, 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.

#### Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us 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. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results might differ from these estimates under different assumptions or conditions.

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Our significant accounting policies are described in Note 2 to our consolidated financial statements appearing elsewhere in this prospectus, and we believe that the accounting policies discussed below involve the greatest degree of complexity and exercise of significant judgments and estimates by our management. The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations and, accordingly, we believe the policies described below are the most critical for understanding and evaluating our financial condition and results of operations.

***Revenue Recognition***

All of our revenue-generating activities directly relate to the sale, implementation and support of our solutions within a single operating segment. We derive the substantial majority of our revenues from subscription fees for the use of our solutions hosted in our data centers as well as revenues for implementation and customer support services related to our solutions. A small portion of our customers host our solutions in their own data centers under term license and maintenance agreements, and we recognize the corresponding revenues monthly over the term of those customer agreements.

Revenues are recognized net of sales credits and allowances. We begin to recognize revenue for a customer when all of the following conditions 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 is commenced when our solutions are implemented and made available to the customers.

Subscription fees are billed and recognized monthly over the agreement term. The initial term of our customer agreements averages over five years, although it varies by customer. We begin recognizing subscription fees on the date a solution is implemented and made available to the customer. The timing of our implementations vary period-to-period based on our implementation capacity, the number of solutions purchased by our customers, the size and unique needs of our customers and the readiness of our customers to implement our solutions. We recognize any related implementation services revenues ratably over the initial agreement term beginning on the date we commence recognizing subscription fees. Amounts that have been invoiced are recorded in accounts receivable and deferred revenues or revenues, depending on whether our revenue recognition criteria have been met.

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

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. Subscription services have standalone value as such services are often sold separately. In determining

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whether implementation services have standalone value apart from the subscription services, we consider factors including the availability of the services from other vendors. To date, we have concluded that the implementation services included in our multiple-deliverable arrangements do not have standalone value. As a result, when implementation services are sold in a multiple-deliverable arrangement we capitalize any fees for implementation services and recognize such amounts ratably over the period of performance for the initial customer agreement term.

When multiple-deliverables included in an arrangement are separated into different units of accounting, the 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. We have not established VSOE for our subscription services due to lack of pricing consistency, the introduction of new services and other factors. We have determined that TPE is not a practical alternative due to differences in our service offerings compared to other parties and the lack of availability of relevant third-party pricing information. Accordingly, we use BESP to determine the relative selling price. The amount of revenues allocated to delivered items is limited to revenues that are not contingent.

We determined BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and number of our transactions, customer demographics, price lists, go-to-market strategy, historical standalone sales and agreement prices. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in relative selling prices, and include both VSOE and BESP.

***Deferred Revenues***

Deferred revenues consist primarily of amounts that have been billed to customers for implementation, maintenance and other services in advance of revenue recognition and prepayments received from customers in advance for implementation, maintenance and other services, as well as initial subscription fees. We recognize deferred revenues as revenues when our 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.

***Deferred Implementation Costs***

We capitalize certain personnel and other costs related to the implementation of our solutions. We amortize the costs for a particular implementation once revenue recognition commences, and we amortize those implementation costs over the remaining term of the customer agreement. We analyze implementation costs that may be capitalized to assess their recoverability, and we only capitalize costs that we anticipate to be recoverable. The portion of capitalized 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***

We capitalize sales commissions and certain third-party costs related to our customer agreements. These costs are amortized over the term of the related customer agreements. We analyze solutions and other costs that may be capitalized to assess their recoverability, and we only capitalize costs that we

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anticipate 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 \$2.9 million, \$4.6 million and \$7.0 million as of December 31, 2012, 2013 and 2014, respectively.

***Accounts Receivable, Net***

Accounts receivable are stated at net realizable value, including both billed and unbilled receivables to customers. Unbilled receivable balances arise primarily when we perform services related to subscription fee agreements in advance of billing. Billing for such services typically occurs one month in arrears.

We assess the collectability of outstanding accounts receivable on an ongoing basis and maintain an allowance if accounts receivable are deemed uncollectable. This allowance is recorded as a reduction of accounts receivable. At December 31, 2013 and 2014, we did not provide for an allowance for doubtful accounts, as all amounts outstanding were deemed collectable. Historically, our collection experience has not varied significantly and bad debt expenses have been insignificant.

***Stock-Based Compensation***

Stock-based awards are measured at fair value at each grant date. We recognize stock-based compensation expenses ratably over the requisite service period of the option award.

***Determination of the Fair Value of Stock-Based Compensation Grants***

The determination of the fair value of stock-based compensation arrangements is affected by a number of variables, including estimates of the fair value of our common stock, expected stock price volatility, risk-free interest rate and the expected life of the award. We value stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Black-Scholes and other option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. If we made different assumptions, our stock-based compensation expenses, net loss, and net loss per common share could be significantly different.

We have assumed no dividend yield because we do not expect to pay dividends in the foreseeable future, which is consistent with our past practice. The risk-free interest rate assumption is based on observed interest rates for U.S. Treasury securities with maturities consistent with the expected life of our 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 midpoint between the vesting date and the end of the agreement term. We 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 list of comparable companies we used to determine expected volatility was consistent with those used to determine the corresponding fair value of our common stock at each grant date.

We based our estimate of pre-vesting forfeitures, or forfeiture rate, on historical forfeiture rates. We apply the estimated forfeiture rate to the total estimated fair value of the awards, as derived from the Black-Scholes model, to compute the stock-based compensation expenses, net of pre-vesting forfeitures, to be recognized in our consolidated statements of operations.



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Based on the closing price of our common stock on December 31, 2014 of \$18.84, the aggregate intrinsic value of outstanding options to purchase shares of our common stock as of December 31, 2014 was \$79.1 million, of which \$46.8 million related to vested options and \$32.3 million to unvested options.

*Determination of the Fair Value of Common Stock on Grant Dates*

Prior to our initial public offering, we were a private company with no active public market for our common stock. Our board of directors periodically determined for financial reporting purposes the estimated per share fair value of our common stock at various dates using independent third-party valuations.

We performed these valuations as of March 31, 2011, September 30, 2011, December 31, 2011, March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012, March 31, 2013, June 30, 2013, October 17, 2013 and December 31, 2014, and utilized the probability weighted expected return model, or PWERM, approach to allocate our equity value to our common shares. The PWERM approach employs various market, income, or cost approach calculations depending on the likelihood of various liquidation scenarios. In conducting the valuations, our board of directors considered all objective and subjective factors that they believed to be relevant for each valuation conducted, including management's estimate of our business condition, prospects and operating performance at each valuation date. Within the valuations performed by our management, a range of factors, assumptions and methodologies were used. Significant factors considered were:

independent third-party valuations performed contemporaneously or shortly before the grant date, as applicable;

the fact that we were a privately held technology company and our common stock was illiquid;

the nature and history of our business;

our discounted future cash flows, based on our projections of future operating results at the time;

valuations of comparable public companies;

the potential impact on common stock of preferential liquidation and redemption rights of our redeemable convertible preferred stock under different valuation scenarios;

current and forecasted economic conditions, both generally and specific to our industry;

the estimated likelihood of achieving a liquidity event for shares of our common stock such as an initial public offering or a sale of our company, given prevailing market conditions, or remaining a private company; and

the state of the initial public offering market for similarly situated privately held technology companies.

There were significant judgments and estimates inherent in these contemporaneous valuations. These judgments and estimates included assumptions regarding our future operating performance, the timing of an initial public offering or other liquidity event and the determinations of the appropriate valuation methods. If we made different assumptions, our stock-based compensation expenses, net loss and net loss per common share could be significantly different.

Since the completion of our initial public offering in March 2014, our board of directors has approved stock option grants with exercise prices based on the closing market price of our common stock on the grant date.



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***Income Taxes***

We account for income taxes under the asset and liability method. We record deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect of a change in tax rates on deferred tax assets and liabilities in the results of operations in the period that includes the enactment date. We assess the likelihood that deferred tax assets will be realized, and we recognize 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, we have provided a valuation allowance against our deferred tax assets as we believe the objective and verifiable evidence of our historical pretax net losses outweighs any positive evidence of our forecasted future results. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment. We will continue to monitor the positive and negative evidence and will adjust the valuation allowance as sufficient objective positive evidence becomes available. At December 31, 2014, our valuation allowance was \$20.3 million.

We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is more likely than not that the position will be sustained upon examination. We recognize potential accrued interest and penalties associated with unrecognized tax positions within our global operations in income tax expense.

**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 us 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. We are currently evaluating the impact of adopting the new revenue standard on our consolidated financial statements.

**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 are exposed to market risk related to changes in interest rates. Borrowings under our credit facility bear interest at rates that are variable. Increases in the LIBOR or prime rate would increase the amount of interest payable on outstanding borrowings on our line of credit. For the years ended December 31, 2012, 2013 and 2014, a 10% change in either the LIBOR or prime rate would not have had a material impact on our interest expense or cash flows. We do not believe that an increase or

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decrease in interest rates of 100-basis points would have a material effect on our operating results or financial condition.

***Foreign Currency Risk***

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

***Inflation Risk***

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

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**BUSINESS**

**Overview**

Q2 is a leading provider of secure, cloud-based virtual banking solutions. We enable regional and community financial institutions, or RCFIs, to deliver a robust suite of integrated virtual banking services and engage more effectively with their retail and commercial account holders who expect to bank anytime, anywhere and on any device. Our solutions are often the most frequent point of interaction between our RCFI customers and their account holders. As such, we purpose-built our solutions to deliver a compelling, consistent user experience across digital channels and drive the success of our customers by extending their local brands, enabling improved account holder retention and creating incremental sales opportunities.

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

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

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

According to a January 2014 report published by Celent entitled "*IT Spending in Banking, A North American Perspective*," U.S. financial institutions are expected to spend \$53.5 billion in 2015 on information technology, or IT. Of this amount, the report forecasts that these institutions will spend approximately \$13.8 billion on new initiatives, heavily focused on enhancing their online, mobile, tablet and other self-service banking capabilities. Based on our current prices and virtual banking solutions, we believe that the RCFI market is greater than \$3.5 billion annually. Our current RCFI customers represent less than 3% of the 12,994 federally-insured RCFIs in the U.S. with less than \$50 billion in assets. We believe we can capture an increasing portion of the IT spend among RCFIs as we continue to grow our customer base and introduce new solutions.

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

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

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

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

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

**Industry Background**

*RCFIs are a substantial and critical part of the economy*

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

The U.S. financial services market is intensely competitive, and RCFIs have historically sought to differentiate themselves by providing local, personalized banking services that are responsive to the changing needs and circumstances of their communities. Many RCFIs are locally-owned and obtain deposits and make lending decisions on a local basis. As a result, RCFIs often develop strong, lasting relationships with their account holders and serve as centers of commerce and influence in their communities. According to a 2014 report from the Small Business Administration, small businesses

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(typically those independent businesses with fewer than 500 employees) have generated 60% of all net new jobs in the U.S. since mid-2013, and according to FDIC data as of September 30, 2014, RCFIs underwrote approximately 76% of all loans to these businesses during the first nine months of 2014.

***RCFIs must respond to innovations in banking***

According to a 2012 survey conducted by the Independent Community Bankers of America and a 2012 report from the National Credit Union Administration, approximately 96% of U.S. banks and 71% of U.S. credit unions offer online banking services to their retail and commercial account holders. Account holders have increasingly come to expect and rely upon a wider range of online banking services to meet their banking needs. For example, 72% of U.S. adults are expected to utilize online banking services by 2017 according to a report titled Trends 2014: North American Digital Banking published by Forrester Research, Inc. on April 22, 2014. By providing online account access and other virtual banking services, financial institutions are able to better engage with and sell more products and services to their account holders through digital channels. To appeal to those account holders who utilize virtual banking services, RCFIs must deliver robust virtual banking capabilities that allow account holders to seamlessly transition between physical branches and digital channels.

Financial service providers are innovating and expanding the virtual banking services they offer. In recent years, virtual banking services have grown beyond simple account access to view balances and pay bills, to more advanced self-service features such as remote check deposit, peer-to-peer payments and online loan application and approval. To remain competitive, RCFIs must keep pace with the innovation in the financial services industry by frequently enhancing the quality and scope of the virtual banking services they offer.

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

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

Prominent consumer brands such as Amazon, Google and Netflix are continually innovating and shaping consumer expectations by delivering modern, intuitive user experiences across digital channels. We believe the frequency and duration with which consumers visit a website or mobile application is heavily influenced by the quality and ease-of-use of the user experience. As a result, RCFIs must deliver compelling user experiences to satisfy account holder expectations and increase account holder loyalty.

***Security is of paramount importance in virtual banking***

The risks of theft and fraud have always existed in banking. However, as the adoption and use of virtual banking services has increased, the incidence of fraud and theft in digital channels has grown substantially. For example, according to a February 2014 report by Javelin Strategy & Research, fraud resulting from account takeover attacks affected 43% more consumers in 2013 than 2012 and those losses exceeded \$5.0 billion in 2013. In December 2014, IDC predicted that global financial institutions will spend \$2.8 billion by 2016 on fraud and financial crimes analytics software and services. In addition, according to a 2014 report by Verizon, financial services companies accounted for 34% of all

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security incidents with confirmed victims of data loss in 2013, which was more than two times the public sector, the next highest industry category.

The methods by which criminals seek to commit fraud are constantly changing, requiring financial institutions to continually modify their security strategies. In addition, safeguarding RCFI and account holder funds and information becomes increasingly complex as virtual banking services grow and extend across new channels and devices.

***Market dynamics are driving demand for third-party solutions***

RCFIs, unlike larger national banks, typically operate without all of the resources and personnel required to effectively deploy, manage, and enhance their own internally-developed virtual banking service offerings. Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the increased rule-making and examination efforts imposed by federal and state regulatory officials, RCFIs are having to commit additional time and resources to compliance matters. As a result, RCFIs are challenged to operate successfully in what has become a complex and dynamic environment.

These market dynamics are driving greater demand among RCFIs for modern, intuitive virtual banking solutions from leading third-party providers. According to a January 2014 report published by Celent entitled "*IT Spending in Banking, A North American Perspective*," U.S. financial institutions are expected to spend \$53.5 billion in 2015 on IT. Of this amount, the report forecasts that these institutions will spend approximately \$13.8 billion on new initiatives, heavily focused on enhancing their online, mobile, tablet and other self-service banking capabilities. Based on our current prices and virtual banking solutions, we believe that the RCFI market is greater than \$3.5 billion annually. As RCFIs continue to embrace virtual banking, they will need partners who can help them maintain and enhance the level of personalization they can deliver to their account holders in an effort to continue to differentiate themselves. We believe we can capture an increasing portion of the market for RCFI spend on IT, and in particular their spend on new initiatives, as we continue to broaden the scope of our virtual banking solutions by identifying additional solutions that will further benefit and grow our RCFI customers' account holder bases.

***Organizations are increasingly transitioning to SaaS providers***

Many organizations are transitioning from solutions which are deployed on-premises under a traditional enterprise license arrangement to cloud-based solutions offered under a SaaS model. According to a September 9, 2014 Gartner report titled "Forecast Overview: Public Cloud Services, Worldwide, 2014 Update" by Ed Anderson, 78% of organizations stated that they plan to increase spending on cloud services through 2017. SaaS solutions can provide a number of benefits to RCFIs, such as lower costs of ownership and operation, improved performance and integration, greater flexibility and scalability, easier deployment of upgrades and enhancements and efficient compliance with regulatory requirements. In addition, legacy systems cannot easily handle the introduction of new channels and devices, resulting in ongoing costly and time consuming work to keep pace with rapid technology innovation.

***Traditional virtual banking systems have limitations***

Many traditional virtual banking systems were originally developed over a decade ago to address a single type of account holder or specific digital channel such as voice banking. These systems can create the following challenges for RCFIs:

integrating applications and digital channels from multiple vendors may increase an RCFI's implementation costs, time-to-market or both;



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managing relationships with multiple vendors may be more time consuming and require greater management infrastructure;

operating, supporting and upgrading systems from multiple vendors can be difficult, costly and less secure and generally do not provide for a unified user experience or a comprehensive view of an account holder; and

training account holders and internal personnel on the use of different point systems can be challenging, time-consuming and costly.

The use of multiple point systems for virtual banking can require account holders to maintain different login credentials for their retail and commercial accounts across digital channels and learn and understand different systems. Additionally, the disjointed nature of the underlying workflows, data and terminology caused by the implementation of multiple solutions can lead to decreased account holder adoption, retention and satisfaction. Account holders' adoption, retention and satisfaction can be adversely impacted by the dated user interfaces of older legacy systems.

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

**Our Solutions**

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

**Key Attributes**

Our virtual banking solutions include the following key attributes:

**Common platform:** Our solutions all operate on a common platform that supports the delivery of unified virtual banking services across online, mobile, voice and tablet channels. Our platform provides a single point of management enabling RCFIs to deliver targeted experiences including tailored rights, features and branding to account holders.

**Tablet-first design:** We initially design the features and user experience of our solutions to be optimized for touch-based tablet devices and then extend that design to other digital channels. This design process and the broad feature set available in our common platform enable our solutions to deliver a modern, unified user experience across digital channels.

**Comprehensive view of account holders:** Our cloud-based solutions and common platform provide our RCFI customers with a comprehensive view of account holder access and activity across devices and channels. The understanding and analysis made possible by this comprehensive view enable an enhanced, personalized user experience, real-time risk and fraud assessment and other analytic features that improve the utility of our solutions.

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**Flexible integration:** We have developed a highly flexible set of integration tools, enabling the rapid integration of third-party applications and data sources. This large set of internally-developed integration tools connects with over 190 third-party applications, allowing us to seamlessly integrate with RCFIs' internal and third-party systems such as account services, payments and imaging.

**SaaS delivery model:** We developed our solutions to be cloud-based, and we host our solutions for substantially all of our RCFI customers. Our customers subscribe and pay for their use of our solutions over time, and our solutions do not require our customers to install any significant technical infrastructure.

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

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

**Key Benefits**

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

**Delivery of robust virtual banking services across digital channels:** Our cloud-based solutions enable our RCFI customers to deliver robust and integrated virtual banking services to their account holders who increasingly expect and appreciate the freedom to bank anytime, anywhere and on any device. Through a single log-in and consistent workflow, users are able to seamlessly conduct retail and commercial transactions across digital channels and devices.

**Improved and more frequent engagement with account holders:** The breadth of our virtual banking solutions and quality of the user experience they provide enable our RCFI customers to increase the frequency and effectiveness of their interactions with account holders. Our customers interact significantly more on average with account holders through our solutions than in physical branches. The frequency of these interactions can strengthen the relationships between account holders and our RCFI customers and help our customers gain a better understanding of the behavior and activities of their account holders to better serve them.

**Drive account holder loyalty:** We believe our RCFI customers are able to drive account holder loyalty by increasing their level of engagement with account holders and consolidating their virtual banking activities on a single platform across devices and digital channels. Our customers are also able to tailor our solutions by offering individually relevant functionality as well as branded, localized user experiences. We believe this further strengthens loyalty by extending account holders' emotional ties to local branches into digital channels.

**More effective marketing of products and services:** Our customers' marketing of their new and existing products and services through our solutions can be more frequent, timely and targeted than through traditional advertising. The ease and availability of communications within these virtual channels also make it easier for account holders to find information about products and services whenever needed.

**Real-time security:** Our integrated Q2 Risk & Fraud Analytics offering allows our customers to better identify suspect activities and protect against fraud and theft by monitoring and understanding the behavior and activities of their account holders across channels. Customers leveraging our Risk & Fraud Analytics solution are blocking suspected fraudulent activity in



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real-time at the application layer and notifying operations staff and account holders of suspect transactions prior to funds leaving the financial institution. By approaching security in this and other ways, our customers can better safeguard their account holders and themselves, reducing risk and protecting their reputations.

***Lower total cost of ownership:*** Our SaaS delivery model can reduce the total cost of ownership of our customers by providing on a subscription basis the development, implementation, integration, maintenance, monitoring and support of our cloud-based solutions. Our common platform is designed to support the rapid addition of new services as well as the introduction of new devices and digital channels. As a result, our customers can easily and cost-effectively scale the use of our solutions with their needs as they add account holders and registered users and expand the virtual banking services they offer.

***Facilitate regulatory compliance:*** Customers who use our cloud-based solutions are able to satisfy security and technical compliance obligations by relying on the security programs and regulatory certification of our data centers and other technical infrastructure. By doing so, our customers eliminate significant cost and effort associated with building, maintaining and upgrading a regulatory-compliant environment on their own.

**Our Business Strengths**

Since our inception, our mission has been to help our RCFI customers succeed and strengthen the communities they serve. As a result, we have remained focused on designing and developing solutions that help them respond to the unique challenges they face. We believe our position as a leading provider of virtual banking solutions to our RCFI customers stems from the following strengths:

***Our purpose-built solutions lead the RCFI virtual banking market:*** We built our solutions to address the unique challenges that RCFIs face in providing virtual banking services. Our common platform was created to support the proliferation of mobile and tablet devices and the speed at which their use has become a common part of daily life. Our platform reduces the inefficiencies of traditional point-to-point integration strategies and replaces multiple management consoles with a single unified view of the rules, rights and security involved with operating seamlessly across digital channels. Our solutions enable our RCFI customers to provide a compelling, unified user experience to retail and commercial account holders using a single login anywhere, anytime and on any device.

***We have a proven track record in the markets we serve:*** Our founders and management have a track record of successfully building banking technology companies. In addition, our employees have deep domain expertise in financial services and community banking. We utilize this deep industry-specific experience to drive our continued growth and success.

***Our customer acquisition model is focused and efficient:*** We focus our customer acquisition efforts exclusively on RCFIs. This market opportunity drives our targeted go-to-market strategy which allows us to effectively direct our sales and marketing efforts. Utilizing the deep industry experience of our management and sales teams, we are able to leverage our relationships with leaders and influencers at many RCFIs as valuable sources of reference and promotion. As a result, our sales professionals are typically able to identify opportunities early and often reduce sales cycle time.

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

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***Our revenues are highly predictable:*** We generally recognize our revenues over the terms of our customer agreements. The initial term of our customer agreements averages over five years, although it varies by customer. Our long-term agreements and our high customer retention, as well as the growth over time in the number of account holders using our solutions, drive the recurring nature of our revenues and provide us with significant visibility into future revenues. Furthermore, we believe our customer services model drives high retention rates and incremental sales of our solutions.

***Our award-winning culture drives innovation and customer success:*** We believe our award-winning, innovation-focused culture and the location of our operations facilitate recruiting and retaining top development, integration and design talent. We are headquartered in Austin, Texas which is a vibrant city that continues to attract an increasing number of young professionals and has close ties to leading research institutions. In each of the past four years, the Austin American Statesman recognized us as one of Austin's "Top Places to Work." Our mission, combined with our focus on delivering cloud-based virtual banking solutions to RCFIs, continue to enable us to attract and retain top talent.

**Our Growth Strategy**

We intend to continue to expand our position as a leading provider of cloud-based virtual banking solutions to RCFIs. To accomplish this goal, we are pursuing the following growth strategies:

***Further penetrate our large market opportunity:*** We believe RCFIs are increasingly adopting cloud-based virtual banking solutions. Our current customers represent less than 3% of the 12,994 federally-insured RCFIs in the U.S. with less than \$50 billion in assets. We intend to further penetrate our large market opportunity and increase our number of RCFI customers through investments in our sales and marketing organization and related activities.

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

***Continue to expand our solutions and enhance our platform:*** We believe our history of innovation distinguishes us in the market, and we intend to continue to invest in our software development efforts and introduce new solutions that are largely informed by and aligned with the business objectives of our existing and new customers. For example, we recently added Q2 Treasury, which is designed to support RCFIs in their efforts to attract and retain larger commercial accounts. Additionally, we successfully leveraged our common platform and integration capabilities which enabled us to derive rich analytics and build and deploy our Risk & Fraud Analytics offering which has been adopted by over 49% of our customers. We plan to continue to expand our analytics capabilities and leverage the data generated on our common platform to further support the strategic initiatives of our existing and new customers.

***Further develop our partner relationships:*** We establish key partner relationships with industry-leading providers to optimize our go-to-market strategy and enhance the value of our platform. Our partners typically inform, educate and connect RCFIs with the services and solutions required to deliver new and innovative technology to their account holders. We plan to leverage our partner ecosystem and cultivate new partner relationships, such as our partnerships with the American Banking Association, National Association of Federal Credit Unions and Western Independent Bankers, to increase the awareness of our solutions.

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

**The Q2 Solutions**

Our solutions allow RCFIs to offer a comprehensive and unified suite of virtual banking services to their account holders. We internally designed and developed our solutions around a common platform that integrates our solutions with each other and RCFIs' other internal and third-party systems and enables virtual banking services to extend across online, mobile, voice and tablet channels. Our common platform architecture, deep integration with other systems and the multi-tenant aspects of our infrastructure, enable us to develop solutions that allow our customers to harness the power of the information within their other systems to gain greater insights and to improve the overall security of their account holders and themselves.

Our common platform is deployed with the initial installation of our solutions and provides our customers with the following benefits:

- single-login and multi-layered security across channels and devices;
- deep integration with numerous other internal and third-party systems within RCFIs;
- single interface to an RCFI's core transaction processing system;
- unified user experience and consistent workflows, languages and data;
- more rapid configurability, development and deployment of new features and functionality; and
- comprehensive view of account holder activity across channels and devices.

We leverage the benefits of our common platform to provide our customers the following solutions:

**Q2online:** Q2online is our browser-based virtual banking solution. Q2online leverages the integration and other benefits of our common platform to securely deliver comprehensive RCFI-branded virtual banking capabilities such as account access, check balancing, funds transfers, bill pay, processing recurring payments, statement viewing and new products and service applications. Q2online also supports single and batch ACH processing, payroll, state and federal tax payments and domestic and international wires. Q2online also provides our customers with management functionality such as account holder enrollment, password management, permissions, rights management, reports, integrated security as well as feature assignment for online, mobile, voice and tablet banking.

**Q2 Risk & Fraud Analytics:** Q2 Risk & Fraud Analytics is our real-time security analytics solution designed to help our customers detect and block suspect transactions within our virtual banking solutions. Q2 Risk & Fraud Analytics provides both behavioral analytics and policy-based decision prompts for RCFI administrators. Our solution continuously learns account holder behaviors while providing an analysis of transaction activity via easy-to-use case management tools supporting either the authorization or interruption of transactions.

**Q2 Treasury:** Q2 Treasury is designed to support RCFIs in their efforts to attract and retain larger commercial accounts. Using Q2 Treasury, business accounts can more effectively manage higher volume and more complex transactions by restricting transactions based on accounts, subsidiaries, approval levels, user roles, date and time as well as geographic location. In addition, Q2 Treasury supports more advanced information reporting designed to help RCFIs deliver key business information to their commercial account holders.

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**Q2mobility App:** Q2mobility App is our mobile and tablet virtual banking solution. With Q2mobility App, retail and commercial account holders can access, engage and complete banking transactions such as adding and managing payees, transferring funds, executing single or recurring payments for multiple bank accounts, viewing e-statements or check images and managing other general banking services from their Apple iOS or Android-enabled mobile or tablet device. Q2mobility App uses the native functionality of mobile and tablet devices, such as touch, camera and geo-location to enhance the virtual banking experience of account holders.

**Q2mobile Remote Deposit Capture:** Q2mobile Remote Deposit Capture is a partnered solution that allows remote check deposit capture utilizing account holders' camera-ready mobile and tablet devices.

**Q2text:** Q2text is our mobile solution designed to enable specific virtual banking activities through the text messaging function of the device. Q2text provides self-service banking to account holders without the use of an app. Q2text enables account holders to check account balances, review transaction histories, transfer funds between accounts and manage alert and notification messaging to their mobile device.

**Q2voice:** Q2voice is our voice-based solution for telephones. With Q2voice account holders can use their traditional telephone or mobile phones to conduct voice banking such as checking account balances and transfers. Q2voice also enables our customers to provide alerts, notification, security and completion of an online initiated transaction to their account holders.

**Q2themes:** Q2themes is a personalization solution for Q2online customers. RCFIs can use Q2themes to customize their virtual banking services through personal, local, loyalty- and audience-specific themes, such as language preferences, font styles and designs specific to our customers' account holders.

**Q2clarity:** Q2clarity is our analytics solution for our Q2online customers. Q2clarity leverages cross-channel data and security analysis to provide our customers' executives with a view of key performance indicators, such as solution performance, utilization and account holder interactions.

**Implementation and Customer Support**

We seek to deepen and grow our customer relationships by providing consistent, high-quality implementation and customer support services which we believe drive higher customer retention and incremental sales opportunities within our existing customer base. We structure our implementation teams to effectively collaborate with the management and technology teams of our customers ensuring the rapid deployment and effective utilization of our solutions. Our implementation teams develop and execute a coordinated implementation plan for our customers centered around five key phases: initiation, configuration, application testing, limited production and production.

Our customer support personnel serve the comprehensive support-related needs of our customers. Due to the highly-regulated and complex nature of the financial services industry, our implementation and customer support service teams are aided by highly-trained, in-house resources who are knowledgeable about our solutions and the regulatory environment in which our customers operate.

**Partner Offerings**

The flexible nature of our common platform allows us to build rapid integrations with RCFIs' internal and third-party systems to support account holder activities and RCFI processes. Our ability to integrate with these systems enables our customers to offer a comprehensive set of retail and commercial functionality to their account holders such as bill payment, personal finance management, online account opening and secure browsing while providing the RCFI a single view of the RCFI's activities and processes such as risk management, fraud detection and account reconciliation. This level

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of visibility enables our RCFI customers to evaluate the overall efficiency of their virtual banking offerings.

**Our Customers**

Our customers represent over 350 of the 12,994 RCFIs in the U.S. with less than \$50 billion in assets. Following is a list of some of our current representative customers. These customers are representative of our bank and credit union customers and the geographies in which our customers are located. We also selected these customers since they vary based on the solutions they purchase from us, the types of account holders they have, the amount of assets under management and the number of registered users they have on our solutions. Our customer base is diverse, and no single customer accounted for more than 5% of our revenues in any of the last three years.

AimBank (Levelland, TX)	Horizon Bank (Austin, TX)
Bank of Yazoo City (Yazoo City, MS)	Independent Bank (McKinney, TX)
Broadway Bank (San Antonio, TX)	Pacific Western Bank (San Diego, CA)
Camden National Bank (Camden, ME)	Paragon Bank (Raleigh, NC)
Canandaigua National Bank and Trust (Canandaigua, NY)	Peoples Bank of Alabama (Cullman, AL)
Community Bank (Los Angeles, CA)	Rockland Trust Company (Plymouth, MA)
Elements Financial (Indianapolis, IN)	St. Martin Bank and Trust Company (St. Martinville, LA)
Enterprise Bank and Trust (Clayton, MO)	Umpqua Bank (Portland, OR)
First Financial Bank (Cincinnati, OH)	United Heritage Credit Union (Austin, TX)
Heartland Financial USA (Dubuque, IA)	

**Sales and Marketing**

Our sales and marketing organization is responsible for growing our customer base and maintaining and expanding relationships with our existing customers. We sell our virtual banking solutions mainly through our direct sales organization. Our direct sales organization consists of experienced sales professionals who are organized based on several different criteria including geography, account size, type of financial institution and whether a prospect is a new or existing customer. Our sales representatives are supported by our solutions consulting and sales operations teams.

Our marketing team complements our sales organization through lead generation, brand building, analyst relations and industry research. Our target market is well-defined due to the regulatory classifications of financial institutions. As a result we are able to target our marketing efforts on RCFIs. We focus our marketing efforts on industry-specific tradeshows, publications and digital newsletters as well as referral agreements with strategic industry partners. Our marketing team also conducts primary research to support our industry thought leadership and to identify emerging trends in account holder behavior and virtual banking activities. Our marketing programs target RCFI technology, finance, operations and marketing executives as well as senior business leaders.



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**Research and Development**

Our focus on innovation has fueled our growth and enables us to provide our customers unified cloud-based virtual banking solutions built on a common platform. We allocate significant resources to developing and improving our platform and virtual banking solutions to meet our customers' evolving virtual banking needs. We monitor and test our solutions regularly, and we maintain a disciplined release process to enhance our existing solutions and introduce new capabilities without interrupting service delivery. We follow state-of-the-art practices in software development and design, including using modern programming languages, data storage systems and other tools. Our multi-tiered architecture enables us to scale, add and modify features quickly in response to changing market dynamics, customer needs and regulatory requirements. Our platform was engineered to support rapid development and deployment of new features to address RCFI needs in the market. We also enable RCFIs to address their market-specific needs via our extension and integration frameworks which is a key aspect of our technology strategy. Workflows and features that we deliver include automated enrollment, product specific payment workflows, loan origination, "save-the-change" programs, targeted marketing and new account opening.

Our research and development expenses were \$5.3 million, \$9.0 million and \$12.1 million for the years ended December 31, 2012, 2013 and 2014, respectively.

**Technology and Operations**

Due to the highly regulated nature of the financial services industry, our platform combines both multi-tenant and single instance aspects. This structure is designed to maximize account holder data security and minimize compliance cost and risks. Our solutions utilize a multi-tiered architecture that allows for scalability, operational simplicity, security and disaster recovery. We have also developed an internal operations and analytics platform that aggregates and leverages customer instance and account holder experience captured within our solutions to drive future innovation and scale.

We serve our customers from two secure, third-party, American National Standards Institute Tier 4 data center facilities, one located in Carrollton, Texas and the other located in Austin, Texas. Both data centers are operated by the same third-party provider. We believe that our current data centers have sufficient capacity to meet our anticipated growth for the foreseeable future. Although we utilize a third-party to manage our data center facilities, we manage the hardware and software on which our solutions operate. We utilize industry standard hardware in resilient configurations to minimize service interruptions. We have also purchased a private block of IP address space to simplify and expedite our disaster recovery management operations for our customers.

Our solutions have had average monthly uptimes in excess of 99.8% since January 2012. We actively monitor our infrastructure 24x7 for any sign of failure, and we seek to take preemptive action to minimize and prevent downtime. Our data centers employ advanced measures to ensure physical integrity and security, including redundant power from multiple substations and cooling systems, fire and flood prevention mechanisms, continual security coverage and biometric readers at entry points as well as perimeter boundary security measures. We have also implemented extensive disaster recovery measures and continue to invest in data center and other technical infrastructure.

All users are authenticated, authorized and validated before they can access our solutions. Users must have at a minimum, a valid user ID and associated password. Many of our customers also employ other authentication methods such as out-of-band one-time password delivery to log on to our solutions and hardware cryptographic tokens to authorize transactions. Our layered security model allows different groups of users to have different levels of access to our solutions. Our solutions' vulnerability is tested using internal tools prior to release, and an independent third party performs penetration and vulnerability tests on our solutions periodically.

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**Intellectual Property**

We rely on a combination of patent, trademark, trade secrets and copyright laws, as well as confidentiality procedures and contractual restrictions, to establish, maintain and protect our proprietary rights. As of December 31, 2014, we had two issued patents and one patent application pending in the U.S. Our issued patent, which expires in March 2028, relates to our intellectual property created to address technology integration challenges for community banks and credit unions. We use the software components and methods claimed in this patent to access the data from several different types of RCFIs and to allow us to deliver our online, mobile, tablet, voice and text solutions to their account holders without having to individually integrate each solution with each RCFI's data. Despite substantial investment in research and development activities, we have not focused on patents and patent applications historically. We license third-party technologies, such as bill pay technologies, that are incorporated into some of our solutions.

The efforts we have taken to protect our intellectual property rights may not be sufficient or effective. It may be possible for other parties to copy or otherwise obtain and use the content of our solutions without authorization. Failure to protect our proprietary rights adequately could significantly harm our competitive position and operating results.

Companies in the Internet and technology industries, and other patent and trademark holders seeking to profit from royalties in connection with grants of licenses, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past, and will likely in the future, receive notices that claim we have misappropriated or misused other parties' intellectual property rights. There may be intellectual property rights held by others, including issued or pending patents and trademarks, that cover significant aspects of our solutions. Any intellectual property claim against us, regardless of merit, could be time consuming and expensive to settle or litigate and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages and could result in our having to stop using solutions found to be in violation of another party's rights. We might be required or may opt to seek a license for rights to intellectual property held by others, which may not be available on commercially reasonable terms, or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. We may also be required to develop alternative non-infringing solutions, which could require significant effort and expense and which we may not be able to perform efficiently or at all. If we cannot license the intellectual property at issue or develop non-infringing solutions for any allegedly infringing aspect of our business, we may be unable to compete effectively.

**Our Competition**

The market for virtual banking solutions is highly competitive. We compete with point solution vendors and core processing vendors, as well as internally-developed solutions. We believe that our deep industry expertise, reputation for consistent, high-quality customer support and our comprehensive and unified cloud-based virtual banking solutions that extend across online, mobile, voice and tablet channels and devices in a secure compliant manner distinguish us from the competition.

We currently compete with providers of technology and services in the financial services industry, including point system vendors and core processing vendors, as well as systems internally developed by RCFIs. We have a number of point system competitors, including Digital Insight Corporation (acquired by NCR Corporation), First Data Corporation and ACI Worldwide, Inc. in the online, consumer and small business banking space and Fundtech Ltd., ACI Worldwide, Inc., Clear2Pay NV/SA and Bottomline Technologies (de), Inc. in the commercial banking space. We also compete with core processing vendors that provide systems and services such as Fiserv, Inc., Jack Henry and

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Associates, Inc. and Fidelity National Information Services, Inc. Many of our competitors have significantly more financial, technical, marketing and other resources than we have, may devote greater resources to the promotion, sale and support of their systems than we can, have more extensive customer bases and broader customer relationships than we have and have longer operating histories and greater name recognition than we have. In addition, many of our competitors expend a greater amount of funds on research and development.

Although we compete with point system vendors and core processing vendors, we also partner with some of these vendors for certain data and services utilized in our solutions and receive referrals from them. In addition, certain RCFIs have or can obtain the ability to create their own in-house systems, and while many of these systems have difficulties scaling and providing an integrated platform, we still face challenges displacing in-house systems and retaining customers that choose to develop an in-house system.

We believe the principal competitive factors in our market include the following:

alignment with the mission of the RCFIs;

ability to provide a single platform for retail and commercial account holders;

functionality across online, mobile, voice and tablet channels;

cloud-based technology platform and pricing model;

ability to quickly integrate with third-party applications and systems;

ease of use of the interface, view and login to virtual banking services across channels;

design of the account holder experience, including modern, intuitive and touch-centric features;

configurability and RCFI branding capabilities;

familiarity of workflows and terminology and feature-on-demand functionality;

integrated multi-layered security and compliance of solutions with regulatory requirements;

quality of implementation, integration and support services;

domain expertise and innovation in banking technology;

ability to innovate and respond to customer needs rapidly; and

rate of development, deployment and enhancement of software.

We believe that we compete favorably with respect to these factors within the RCFI market for virtual banking solutions, but we expect competition to continue and increase as existing competitors continue to evolve their offerings and as new companies enter our market. Many of

our competitors have substantially greater financial, technical and other resources and have greater flexibility in bundling and pricing competing solutions. To remain competitive, we believe we must continue to invest in research and development, sales and marketing, customer support and our business operations generally.

**Employees**

As of December 31, 2014, we had 501 employees, all of which are located in the U.S. We consider our current relationship with our employees to be good. None of our employees are represented by a labor union or are a party to a collective bargaining agreement.

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**Culture**

Since our inception, our culture has been rooted in our mission to help our RCFI customers be more successful and better serve their communities. We believe our passion, dedication and commitment towards this mission is a significant differentiator for us with RCFIs and our employees. We share our culture through our customer interactions, employee functions and collaborative and educational customer events like our client conference, user groups and collaboration focus groups. In each of the past four years, the Austin American Statesman recognized us as one of Austin's "Top Places to Work," and approximately 50% of our newly-hired employees in 2014 were referred by existing employees.

Presented with regular opportunities to help RCFIs more successfully compete and grow, we seek out ways to enhance our culture and our ability to make a difference for our customers and their account holders. Our culture is visible across our organization and highlighted through a host of initiatives, programs and committees including the following:

our employee led committees of culture, wellness, green, cares and communications help create opportunities for employees to come together around important causes to make a difference in the work place and local communities;

our project renaissance and project base camp initiatives promote the hiring of broad and non-traditional engineering and project management talent;

our emerging leaders management training program identifies and cultivates new and emerging leadership talent within our organization; and

our flexible work spaces promote a collaborative, high-energy work environment and help facilitate team-based problem solving and cross-departmental learning.

**Government Regulation**

As a technology service provider to banks and credit unions, we are not required to be chartered by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration or other federal or state agencies that regulate or supervise our customers and other providers of financial services.

Our customers and prospects are subject to extensive and complex regulations and oversight by federal and state regulatory authorities. These laws and regulations are constantly evolving and affect the conduct of our customers' operations and, as a result, our business. For instance, in 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. The Dodd-Frank Act introduced substantial reforms to the supervision and operation of the financial services industry, including introducing changes that:

affect the oversight and supervision of financial institutions;

introduce more stringent regulatory capital requirements;

implement changes to corporate governance and executive compensation practices; and

require significant rule-making.

The Dodd-Frank Act also established a new federal interagency council called the Financial Stability Oversight Council, or FSOC, and a new federal bureau called the Consumer Financial Protection Bureau, or CFPB. The FSOC monitors and assesses systemic risk to the safety of the U.S. financial system and coordinates the actions of the various regulatory agencies on those issues. The CFPB is empowered to conduct rule-making and supervision related to, and enforcement of, federal



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consumer financial protection laws. The Dodd-Frank Act has generated, and will continue to generate, numerous new regulations that will impact the financial services industry. It is difficult to predict the extent to which the Dodd-Frank Act, the FSOC, the CFPB or the resulting regulations will impact our business or the businesses of our current and potential customers.

Our solutions must enable our customers to comply with other applicable requirements such as the following:

the Electronic Funds Transfer Act;

the Electronic Signatures in Global and National Commerce Act;

federal and state usury laws;

the Gramm-Leach-Bliley Act;

laws against unfair, deceptive, or abusive acts or practices;

the Privacy of Consumer Financial Information regulations;

the Guidance on Supervision of Technology Services Providers promulgated by the Federal Financial Institutions Examination Council, or FFIEC;

the Guidance on Outsourcing Technology Services promulgated by the FFIEC; and

other state and local laws and regulations.

We are subject to periodic examination by banking regulators under the authority of the FFIEC under its Guidance on the Supervision of Technology Services Providers and the Gramm-Leach-Bliley Act of 1999, and other federal and state laws that apply to technology service providers as a result of the services we provide to the institutions they regulate. As an independent technology service provider, we are examined by federal financial regulators on a rotating basis. These examinations are based on guidance from the FFIEC, which is a formal interagency body empowered to prescribe uniform principles, standards and report forms for the examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The examinations cover a wide variety of subjects, including our management, acquisition and development activities, support and delivery, IT audits, as well as our disaster preparedness and business recovery planning. The banking regulators that make up the FFIEC have broad supervisory authority to remedy any shortcomings identified in an examination. Following an examination, our financial institutions customers may request an executive summary of the examination through their lead examination agency.

The Dodd-Frank Act granted the CFPB authority to promulgate rules and interpret certain federal consumer financial protection laws, some of which apply to the solutions we offer. In certain circumstances, the CFPB also has examination and supervision powers with respect to service providers who provide a material service to a financial institution offering consumer financial products and services.

The compliance of our solutions with these requirements depends on a variety of factors, including the functionality and design of our solutions, the classification of our customers, and the manner in which our customers and their account holders utilize our solutions. For example, we are subject to the privacy and confidentiality provisions of the Gramm-Leach-Bliley Act and its implementing regulations. In order to comply with our obligations under these laws, we are required to implement operating policies and procedures to protect the privacy and security of our customers' and their account holders' information and to undergo periodic audits and examinations.





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**Facilities**

Our principal executive offices are located in Austin, Texas, where we lease approximately 86,000 square feet of office space under a lease with an initial term that expires on April 30, 2021, with the option to extend the lease for an additional five year term. In July 2014, we entered into a new agreement to lease approximately 70,000 additional square feet in an office building located adjacent to our current headquarters. We anticipate that approximately 55,000 square feet of the new space will become available in November 2015 and the remaining approximately 15,000 square feet in August 2016. We also lease office space near Atlanta, Georgia. We believe our current facilities will be adequate for our needs for the foreseeable future.

**Legal Proceedings**

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would have a material adverse effect on us.

Table of Contents**MANAGEMENT****Executive Officers and Directors**

The following table sets forth information regarding our executive officers and directors.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Matthew P. Flake	43	Chief Executive Officer, President and Director
Jennifer N. Harris	47	Chief Financial Officer
Adam D. Anderson	43	Executive Vice President and Chief Technology Officer
John E. Breeden	42	Executive Vice President of Operations
Barry G. Benton	52	Senior Vice President, General Counsel and Secretary
William M. Furrer	47	Senior Vice President of Product and Marketing
Sherri L. Manning	48	Senior Vice President of People and Places
Stephen C. Soukup	47	Senior Vice President of Sales
R. H. "Hank" Seale, III(1)	52	Founder and Executive Chairman
Michael M. Brown(1)(2)(3)(4)	42	Director
Jeffrey T. Diehl(2)(3)(4)	45	Director
Charles T. Doyle(1)(3)(4)	80	Director
Michael J. Maples, Sr.(1)(2)	72	Director
James R. Offerdahl(3)	58	Director
Carl James Schaper(2)(4)(5)	63	Director

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- (1) Member of Information Systems Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Financial Audit Committee
- (4) Member of Nominating and Corporate Governance Committee
- (5) Lead Independent Director

**Executive Officers**

**Matthew P. Flake** has served as our President since March 2008, the Chief Executive Officer of Q2 Software, Inc., our sole operating subsidiary, since December 2011 and Q2 Holdings' Chief Executive Officer and a member of our board of directors since October 2013. From June 2005 until March 2008, Mr. Flake served as our Vice President of Sales. Mr. Flake previously served as a Regional Sales Director at S1 Corporation, a provider of Internet-based financial services solutions from 2002 until May 2005. Prior to that, Mr. Flake was a Regional Sales Manager for Q-Up Systems, Inc., a provider of interactive web-based solutions for community banks and credit unions from August 1999 until 2002. Mr. Flake holds a B.A. in Business from Baylor University. Mr. Flake's extensive experience in the community banking industry and his perspective as our head of sales for multiple years and current Chief Executive Officer make him a valuable member of our board of directors.

**Jennifer N. Harris** has served as our Chief Financial Officer since December 2013. From March 2013 to December 2013, Ms. Harris served as our Vice President and Corporate Controller. Prior to joining us, Ms. Harris was the Interim Corporate Controller for Blackbaud, Inc., a provider of software solutions to nonprofit organizations and educational institutions, from May 2012 until November 2012. From April 2005 until May 2012, Ms. Harris held various financial positions with Convio, Inc., a provider of SaaS constituent engagement solutions, most recently as Vice President, Controller and Principal Accounting Officer, from October 2010 until May 2012, when Convio was acquired by Blackbaud. From November 1998 until April 2005, Ms. Harris held a variety of financial positions with Motive, Inc., a provider of service management software for broadband and mobile data services, most



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recently as Director of Finance and Administration and Corporate Treasurer from April 2003 until April 2005. Ms. Harris holds a B.S. in Business from Indiana University.

**Adam D. Anderson** has served as our Executive Vice President since November 2011 and Chief Technology Officer since December 2010. From May 2006 until December 2010, Mr. Anderson served as our Chief Information Officer. Prior to joining us, Mr. Anderson held the position of Vice President, Engineering and Support of CipherTrust, Inc., a provider of security solutions for inbound and outbound messaging threats, from November 2003 until May 2006. From July 2001 until November 2003, Mr. Anderson served as Senior Director, Technology Services for S1 Corporation. From November 2000 until July 2001, Mr. Anderson was Vice President, Internet Operations for Q-Up Systems, Inc. Mr. Anderson holds a B.A. in Economics from Indiana University. He has also completed graduate work in Computational Economics at The University of Texas at Austin.

**John E. Breeden** has served as our Executive Vice President of Operations since February 2013. From November 2011 until February 2013, he served as our Senior Vice President of Implementations. Prior to joining us, Mr. Breeden was Vice President of Corporate Services for Activant Solutions Inc., a provider of business management solutions, from October 2007 until July 2011. Mr. Breeden also served as Activant Solutions' Vice President of Information Technology from June 2005 until October 2007, and its Director of Corporate Planning from October 2002 until June 2005. From January 2002 until October 2002, Mr. Breeden was an enterprise software and process optimization consultant for The North Highland Company, a consulting firm. From January 2001 until January 2002, Mr. Breeden held the position of Product Manager for Claria Corporation, an advertising software company. Mr. Breeden holds a B.B.A. in Finance from The University of Texas at Austin.

**Barry G. Benton** has served as our Senior Vice President, General Counsel and Secretary since October 2013 and as our General Counsel since January 2011. Prior to joining us, Mr. Benton was in private practice representing us, as well as a number of other large and small business owners and financial institutions in a variety of aspects of their operations, including debt and equity financings, commercial real estate and mergers and acquisitions from January 2009 until October 2010. From September 1995 until January 2009, Mr. Benton was a partner in private practice with various law firms, most recently with Glast, Phillips & Murray, PC from August 2003 until January 2009. Mr. Benton is a past committee member of the Commercial Financial Services Committee of the Business Section of the State Bar of Texas and prior member of the Texas Association of Bank Counsel. Mr. Benton holds a J.D. from St. Mary's University School of Law and a B.A. in Political Science from Texas Tech University.

**William M. Furrer** has served as our Senior Vice President of Product and Marketing since July 2013 and served as our Senior Vice President of Marketing from February 2013 until July 2013. Prior to joining us, Mr. Furrer was President of IF Marketing and Advertising, a full service interactive marketing and advertising agency specializing in brand development and integrated marketing campaigns, from July 2001 until January 2013. From September 1999 until December 2001, Mr. Furrer held a number leadership positions with Q-Up Systems, Inc., including sales engineer, relationship management and web technologies product management. From April 2000 until December 2001, Mr. Furrer was Director of Web Technologies for S1 Corporation. Mr. Furrer holds a B.A. in English from Virginia Tech.

**Sherri L. Manning** has served as our Senior Vice President of People and Places since February 2015. From October 2011 to February 2015, Ms. Manning served as our VP of People & Places. Prior to joining us, Ms. Manning was a Regional Manager of Human Resources for the Central/South location of International Business Machines Corporation, a multinational technology and consulting corporation from March 2010 to September 2011. Before that, from July 2008 to January 2010, Ms. Manning was the Senior Vice President of Human Resources and Ethics for Universal Pegasus International, a provider of professional services to the energy industry. Prior to that Ms. Manning was employed at Dell and Colgate Palmolive in a variety of Human Resource roles. Ms. Manning is a

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member of the Society of Human Resource Professionals and the Oklahoma and Missouri Bar Associations. Ms. Manning holds an L.L.M from Georgetown University, a J.D. from the University Of Oklahoma College Of Law, studied EU Law at the University of Oxford and a holds a B.A. in Political Science from Phillips University.

**Stephen C. Soukup** has served as our Senior Vice President of Sales since April 2013 and served as our Vice President of Direct Sales from October 2012 until April 2013. Prior to joining us, Mr. Soukup held a number of sales leadership positions at Intuit Inc., a provider of business and financial management solutions, including roles in direct sales, relationship management and alliances from April 2007 to October 2012. From April 2002 until April 2007, Mr. Soukup served as Senior Director of Relationship Management for S1 Corporation. From June 2000 until April 2002, Mr. Soukup was Business Development Manager for Getronics NV, a provider of branch automation systems and managed desktop and network technology services. Mr. Soukup holds an M.B.A. from Boston University and a B.S. in Finance from Boston College.

**Board of Directors**

**R. H. "Hank" Seale, III** is our founder and Executive Chairman of our board of directors and has overseen our growth from inception. Mr. Seale served as our President and Chief Executive Officer from March 2005 until October 2013. Mr. Seale previously founded Q-Up Systems, Inc. in 1997, serving as Chairman and Chief Executive Officer until its sale in April 2000 to S1 Corporation. Mr. Seale served as Chief Executive Officer of S1 Corporation's Community and Regional Solutions Group from April 2000 until August 2001. In February 1991, Mr. Seale co-founded Regency Voice Systems, a provider of voice banking solutions to community banks, which was acquired by Transaction System Architects in May 1997. Mr. Seale currently serves on the board of directors of CoreTrac, Inc. and RealMassive, Inc. and is President of Seale, Inc., the general partner of R.H.S. Investments-I, L.P. Mr. Seale holds a B.S. in Agricultural Economics from Texas Tech University. Mr. Seale's perspective as our founder, former Chief Executive Officer, and a successful entrepreneur in the community banking and credit union industries make him a valuable member of our board of directors and our Information Systems Audit Committee, or IS Audit Committee.

**Michael M. Brown** has been a member of our board of directors since March 2013. Mr. Brown is a General Partner at Battery Ventures, a private equity and venture capital firm focused on technology companies, which he joined in December 1998. Mr. Brown serves on a number of private company boards. Mr. Brown was previously a member of the High Technology Group at Goldman, Sachs & Co. from 1996 until 1998 and worked as a Financial Analyst within Goldman's Financial Institutions Group from 1994 until 1996. Mr. Brown holds a B.S. in Finance and International Business from Georgetown University. Mr. Brown's extensive experience advising growth-stage Internet and software companies, and his financial expertise, make him a valuable member of our board of directors and Compensation, Financial Audit, IS Audit Committee and Nominating and Corporate Governance Committees.

**Jeffrey T. Diehl** has been a member of our board of directors since July 2007. Mr. Diehl is the Head of Investments and a Partner at Adams Street Partners, LLC, a private equity firm, which he joined in November 2000. Mr. Diehl serves as a director of Paylocity Holding Corporation, a provider of payroll and human capital management software services, and various private companies. From 1997 until 2000, Mr. Diehl served as a Principal for the Parthenon Group, a strategy consulting and principal investing firm. Mr. Diehl holds an M.B.A. from Harvard Business School and a B.S. in Finance from Cornell University. Mr. Diehl's extensive experience as an investor in, and board member of, a variety of venture and growth-oriented companies in the software, IT-enabled business services and consumer Internet/media sectors brings valuable insight to our board of directors and Compensation, Financial Audit and Nominating and Corporate Governance Committees.

**Charles T. Doyle** has been a member of our board of directors since May 2011. Mr. Doyle is a former member of the board of directors of Visa Inc., Visa U.S.A., and Visa International. He also

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previously served on the boards of directors of a number of private companies in the payments industry. Among his many banking affiliations over the years, Mr. Doyle served as the first community banker on the Federal Advisory Council to the Board of Governors of the Federal Reserve and as a Director of the Federal Reserve Bank in Dallas, Texas. He is a past president and former member of the board of directors of Independent Community Bankers Association of America, served on the Advisory Board of the Southwestern School of Banking at Southern Methodist University, and is a former board member of the Texas Tech University School of Banking. Mr. Doyle co-founded and served six years as Chairman of ICBA Bancard, Inc., a national credit card network of community banks. He is currently the chairman emeritus of the board of directors of Texas First Bank and the chairman of the board of directors of Texas Independent Bancshares, Inc. He is also a member of the board of directors of the Independent Bankers Association of Texas Education Foundation. Mr. Doyle holds an M.B.A. from the University of Houston and a B.B.A. from the University of Oklahoma. Mr. Doyle's distinguished career in government and in the payments and banking industries makes him a valuable member of our board of directors and Financial Audit, IS Audit and Nominating and Corporate Governance Committees.

**Michael J. Maples, Sr.** has been a member of our board of directors since February 2012. Mr. Maples held various management positions at Microsoft Corporation, a software products and services company, from April 1988 to July 1995, including Executive Vice President of the Worldwide Products Group. As a member of the Office of the President at Microsoft from 1991 to his retirement in July 1995, Mr. Maples reported directly to the Chairman. Previously, Mr. Maples served as Director of Software Strategy for International Business Machines Corp., a technology and consulting corporation. Mr. Maples currently serves on the board of directors of Lexmark International, Inc., a laser printer and enterprise software company. Mr. Maples holds an M.B.A. from Oklahoma City University and a B.S. in Electrical Engineering from the University of Oklahoma. Mr. Maples' extensive management and financial experience in technology companies and corporate governance experience through service on other boards of directors make him a valuable member of our board of directors and IS Audit and Compensation Committee.

**James R. Offerdahl** has been a member of our board of directors since December 2010. Mr. Offerdahl currently serves as Chief Financial Officer of Bazaarvoice, Inc., a provider of online rating and review solutions to brands and retailers worldwide, which he joined in January 2013. Mr. Offerdahl served as the Chief Financial Officer and Vice President of Administration of Convio, Inc., a provider of on-demand constituent engagement solutions, from February 2005 until it was acquired by Blackbaud, Inc. in May 2012. From August 2001 to April 2004, Mr. Offerdahl was President and Chief Executive Officer of Traq-Wireless, Inc., a provider of on-demand mobile resource management software and services. From 1998 to 2001, Mr. Offerdahl served as Chief Operating Officer and Chief Financial Officer of Pervasive Software, Inc., a developer and marketer of data management solutions, and as Chief Financial Officer from 1996 to 1998. From 1993 to 1996, Mr. Offerdahl was the Chief Financial Officer and Vice President of Administration of Tivoli Systems, Inc., a developer and marketer of systems management software, which was acquired by International Business Machines Corp. in March 1996. Mr. Offerdahl holds an M.B.A. in Management and Finance from the University of Texas at Austin and a B.S. in Accounting from Illinois State University. Mr. Offerdahl's extensive experience managing technology and software companies, and his financial expertise, make him a valuable member of our board of directors and Financial Audit Committee.

**Carl James Schaper** has been a member of our board of directors since December 2011. Mr. Schaper currently serves on the board of directors of BMC Software, Inc., an IT management solutions company. Since December 2010, Mr. Schaper has served as Chairman of the board of directors of Infor Global Solutions, a provider of business software and solutions, which he founded in February 2002. Prior to that, Mr. Schaper served as Chairman, President and Chief Executive Officer of Infor from February 2002 to December 2010. Since January 2000, Mr. Schaper has been an Operating

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Partner of Golden Gate Capital, a private equity firm. Mr. Schaper also serves on the boards of directors of Attachmate Corp., the University of South Carolina (USC) Garnet Way Council and the USC Educational Foundation. Mr. Schaper also held the roles of Chairman and Chief Executive Officer of Primis Corporation, Chief Operating Officer of Medaphis Corporation, and Chief Operating Officer of Dun and Bradstreet Software Services, Inc. Mr. Schaper holds a B.A. in Journalism from the University of South Carolina. Mr. Schaper's extensive management experience in the software and technology marketplace provides valuable industry knowledge and management experience to our board of directors and Compensation and Nominating and Corporate Governance Committees.

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

In addition to the information presented above regarding each director's specific experience, qualifications, attributes and skills, we also believe that all of our directors have demonstrated business acumen, ethical integrity and an ability to exercise sound judgment, as well as a commitment of service to us and our board of directors.

**Board Composition**

Our board of directors currently consists of eight members. Our board of directors may establish the authorized number of directors from time to time by resolution. In accordance with our amended and restated certificate of incorporation and our amended and restated bylaws, our board of directors is divided into three classes with staggered three-year terms. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Vacancies on our board of directors can be filled by a majority vote of the board of directors.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change of control. Messrs. Diehl, Brown and Flake are the Class I directors, and their terms will expire in 2015. Messrs. Maples, Offerdahl and Seale are the Class II directors, and their terms will expire in 2016. Messrs. Doyle and Schaper are the Class III director, and their terms will expire in 2017.

**Director Independence**

In October 2013, our board of directors undertook a review of the independence of the directors and considered whether any director has a material relationship with us that could compromise his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, our board of directors determined that Messrs. Brown, Diehl, Doyle, Maples, Offerdahl and Schaper are "independent directors" as defined under SEC rules and regulations.

**Lead Independent Director**

In December 2013, our board of directors designated Mr. Schaper as our lead independent director. As our lead independent director, Mr. Schaper presides over periodic meetings of our independent directors, serves as a liaison between our Executive Chairman and the independent directors and performs such additional duties as our board of directors may otherwise determine and delegate.

**Committees of Our Board of Directors**

Our board of directors has a Financial Audit Committee, a Compensation Committee, an Information Systems Audit Committee and a Nominating and Corporation Governance Committee, each of which have the composition and responsibilities described below.

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***Financial Audit Committee***

Our Financial Audit Committee is responsible for, among other things:

appointing, compensating, retaining and overseeing our independent auditors;

approving the audit and non-audit services to be performed by our independent auditors;

reviewing, with our independent auditors, all critical accounting policies and procedures;

reviewing and discussing with management and the independent auditor our annual audited financial statements and any certification, report, opinion or review rendered by the independent auditor;

reviewing with management and the independent auditor the adequacy and effectiveness of our internal control structure and procedures for financial reports;

reviewing and investigating conduct alleged to be in violation of our code of conduct and establishing procedures for our receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

preparing the Financial Audit Committee report required in our annual proxy statement;

reviewing the appointment, organization, budget, staffing and charter of the internal audit function, and the annual internal audit plan, and reviewing with management any reports of the internal audit function; and

reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

Our Financial Audit Committee is currently composed of Messrs. Brown, Diehl, Doyle and Offerdahl. Mr. Offerdahl has been appointed to serve as the chairperson of our Financial Audit Committee. Our board of directors has determined that each of Messrs. Brown, Diehl, Doyle and Offerdahl is independent under the applicable requirements of the New York Stock Exchange and SEC rules and regulations. Our board of directors also determined that each of Messrs. Brown, Diehl, Doyle and Offerdahl meet the requirements for financial literacy and sophistication under the applicable requirements of the New York Stock Exchange and SEC rules and regulations, and that Mr. Offerdahl qualifies as an "audit committee financial expert," under the applicable requirements of the New York Stock Exchange and SEC rules and regulations.

Our Financial Audit Committee has adopted a Financial Audit Committee charter. We believe that the composition of our Financial Audit Committee, and our Financial Audit Committee's charter and responsibilities, comply with the applicable requirements of the New York Stock Exchange and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

***Compensation Committee***

Our Compensation Committee is responsible for, among other things:

reviewing and approving corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers;



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reviewing and approving the salaries, bonuses, incentive compensation, equity awards, benefits and perquisites of our Chief Executive Officer and our other executive officers;

recommending the establishment and terms of our incentive compensation plans and equity compensation plans, and administering such plans;

recommending compensation programs for directors;

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preparing disclosures regarding executive compensation and any related reports required by the rules of the SEC;

making and approving grants of options and other equity awards to all executive officers, directors and all other eligible individuals; and

reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

Our Compensation Committee is currently composed of Messrs. Brown, Diehl, Maples and Schaper, each of whom is a non-employee member of our board of directors. Mr. Schaper has been appointed to serve as the chairperson of our Compensation Committee. In October 2013, our board of directors determined that each member of our Compensation Committee is independent under the applicable requirements of the New York Stock Exchange and SEC rules and regulations, is a non-employee director, as defined by Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and is an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code.

Our board of directors has adopted a Compensation Committee charter. We believe that the composition of our Compensation Committee, and our Compensation Committee's charter and responsibilities, comply with the applicable requirements of the New York Stock Exchange and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

***Nominating and Corporate Governance Committee***

Our Nominating and Corporate Governance Committee is responsible for, among other things:

assisting our board of directors in identifying qualified director nominees and recommending nominees for each annual meeting of stockholders;

developing, recommending and reviewing corporate governance principles applicable to us;

consulting with our Financial Audit Committee regarding, and periodically reviewing, our code of business conduct and ethics;

assisting our board of directors in its evaluation of its performance and the performance of each of its committees; and

reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

Our Nominating and Corporate Governance Committee is currently composed of Messrs. Brown, Diehl, Doyle and Schaper. Mr. Schaper has been appointed to serve as the chairperson of our Nominating and Corporate Governance Committee. Our board of directors has determined that each of these individuals is independent under the applicable requirements of the New York Stock Exchange and SEC rules and regulations.

Our board of directors has adopted a Nominating and Corporate Governance Committee charter. We believe that the composition of our Nominating and Corporate Governance Committee and our Nominating and Corporate Governance Committee's charter and responsibilities comply with the applicable requirements of the New York Stock Exchange and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

***Information Systems Audit Committee***

Our Information Systems Audit Committee, or IS Audit Committee, is responsible for, among other things:

monitoring and oversight of response to, and compliance with, regulatory requirements, requests and orders;

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overseeing the adequacy, efficacy, and implementation of our compliance audit plan;

approving and overseeing our major information systems projects that establish and prioritize information systems standards and overall performance;

reviewing the adequacy and allocation of our information systems resources in terms of funding, personnel, equipment and service levels;

reviewing, discussing with management and overseeing the implementation, monitoring and testing of our information systems security program and business continuity plan; and

reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

Our IS Audit Committee is currently composed of Messrs. Brown, Doyle, Maples and Seale. Mr. Doyle has been appointed to serve as the chairperson of our IS Audit Committee. Our IS Audit Committee has a charter which was adopted by our board of directors.

The full text of our Financial Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and IS Audit Committee charters are posted on the investor relations portion of our website at <http://www.q2ebanking.com>. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

**Code of Business Conduct and Ethics**

Our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), directors and consultants. The full text of this code is posted on the investor relations portion of our website at <http://www.q2ebanking.com>. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

**Director Compensation**

The following table presents compensation information for fiscal 2014 paid to, or accrued for, each of the non-employee members of our board of directors. The table excludes Mr. Flake, who is a named executive officer and who does not receive compensation in respect of his service as a director.

Name	Fees Earned or Paid in		Option	All Other	Total
	Cash	Awards(8)	Compensation		
R.H. "Hank" Seale, III(1)	\$ 26,641	\$ 68,699	\$	\$	\$ 95,340
Michael M. Brown(2)	35,652	47,420			83,072
Jeffrey T. Diehl(3)	32,518	47,420			79,938
Charles T. Doyle(4)	42,353	47,420			89,773
Michael J. Maples(5)	31,022	47,420			78,442
James R. Offerdahl(6)	42,178	47,420			89,598
Carl James Schaper(7)	140,376	47,420			187,796

(1) Under our director compensation plan, Mr. Seale elected to receive options to purchase 4,615 shares of our common stock in lieu of cash fees totaling \$60,000. As of December 31, 2014, Mr. Seale had 14,230 shares underlying option awards outstanding.

(2)

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As of December 31, 2014, Mr. Brown had 9,615 shares underlying option awards outstanding.

(3)

As of December 31, 2014, Mr. Diehl had 9,615 shares underlying option awards outstanding.

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- (4) Mr. Doyle has directed us to contribute all of his board of director fees to a charity specified by him in his name. As of December 31, 2014, Mr. Doyle had 22,115 shares underlying option awards outstanding.
- (5) As of December 31, 2014, Mr. Maples had 77,615 shares underlying option awards outstanding.
- (6) As of December 31, 2014, Mr. Offerdahl had 44,480 shares underlying option awards outstanding.
- (7) As of December 31, 2014, Mr. Schaper had 420,615 shares underlying option awards outstanding.
- (8) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with FASB ASC Topic 718. Assumptions used in calculating these amounts are described in Note 2 to our consolidated financial statements included elsewhere in this prospectus. As required by SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

On February 19, 2014 we adopted a director compensation policy, as amended on March 5, 2014. Pursuant to the terms of the policy, each non-executive officer director receives an annual cash fee of \$30,000 and an annual equity award of \$125,000 in stock options. The number of shares subject to these options is determined by dividing \$125,000 by the fair market value of our common stock on the date of grant, and these options will vest monthly over three years. Directors receive an additional \$5,000 annually for serving on our Financial Audit Committee, an additional \$4,000 annually for serving on our Compensation Committee, an additional \$2,500 annually for serving on our Nominating and Corporate Governance Committee and an additional \$4,000 annually for serving on the IS Audit Committee. The chairman of our board of directors receives an additional \$60,000 annually, the chairman of our Financial Audit Committee receives an additional \$15,000 annually, the chairman of our Compensation Committee receives an additional \$10,000 annually, the chairman of our Nominating and Corporate Governance Committee receives an additional \$5,000 annually, the chairman of our IS Audit Committee receives an additional \$10,000 annually and our lead independent director receives an additional \$100,000 annually. Our chairman of our board of directors and our lead independent director can elect to receive their annual fees as chairman or lead independent director, as applicable, in options in lieu of cash. If they elect to receive options in lieu of cash, the number options they would be entitled to receive would equal their annual fee divided by the fair market value of our common stock on the date of grant. Such options would vest over 12 months, provided that the director continues to serve as a director through such vesting dates. Members of our board of directors are reimbursed for travel and other out-of-pocket expenses in connection with attending meetings.

**Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee is an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Table of Contents**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table presents compensation information for fiscal 2014 and 2013 paid to or accrued for our principal executive officer and for fiscal 2014 paid to our two other most highly compensated persons serving as executive officers as of December 31, 2014. We refer to these executive officers as our "named executive officers."

Name and Principal Position	Year	Salary	Option Awards(1)	Non-Equity Incentive Plan Compensation	All Other Compensation(4)	Total
Matthew P. Flake <i>President and Chief Executive Officer</i>	2014	\$ 343,125	\$ 4,058,561	\$ 268,797(2)	\$ 8,093	\$ 4,678,576
	2013	300,000		182,850(3)	10,042	492,892
Jennifer N. Harris <i>Chief Financial Officer</i>	2014	265,000	1,130,521	91,391(2)	8,593	1,495,505
Adam D. Anderson <i>Executive Vice President and Chief Technology Officer</i>	2014	250,000	1,082,283	129,699(2)	8,655	1,470,637

- (1) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with FASB ASC Topic 718. Assumptions used in calculating these amounts are described in Note 2 to our consolidated financial statements included elsewhere in this prospectus.
- (2) Includes amounts earned under our 2014 Bonus Plan as described below.
- (3) Includes amounts earned under our 2013 Executive Bonus Plan as described below.
- (4) Consists of the employer's portion of premiums paid for medical, dental, vision, short-term disability, long term disability, life and accidental death and dismemberment insurance and health savings account contributions, and for Mr. Anderson and Ms. Harris, fees for participation on certain of our employee committees.

*Cash Awards under the 2013 Executive Bonus Plan*

Mr. Flake participated in, and was eligible for cash awards under, our 2013 Bonus Plan, which provided for the amounts earned to be based on the following metrics: 50% bookings, 20% delivered revenue and 30% gross margin.

The bookings component consisted of monthly recurring bookings revenue based on committed or contracted levels in our customer agreements, with an exclusion for one-time services. The delivered revenue component consisted of all revenue other than monthly recurring revenue that is delivered and recognized during 2013 and included subscription, implementation and one-time services fees, but excluded any customer termination payments and changes to revenue as a result of accounting policy changes or adjustments. The gross margin component consisted of our gross margin calculated in accordance with GAAP, but excluding capitalization and amortization. These components were measured against our 2013 annual budget approved by our board of directors. The 2013 Bonus Plan provided for a single annual payout opportunity for Mr. Flake.

The payouts under the 2013 Bonus Plan were based on our performance as a company within a range of each component's target. For Mr. Flake, no incentive payment was to be earned for performance below the target minimum and the maximum bonus was to be earned at the target





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maximum. The range and target for each component applicable to Mr. Flake are set forth in the following table:

Achievement Level	Percentage of Bookings and Delivered Revenue Component Attained	Percentage of Gross Margin Component Attained	Corresponding Weighted Payout Percentage Per Component
Minimum	85%	90%	50%
At target	100%	100%	100%
Maximum	120%	120%	150%

In January 2014, our Compensation Committee modified the gross margin component of the 2013 Bonus Plan to exclude certain costs we had incurred in connection with this offering and one-time investments in our business. Such modification applied to Mr. Flake.

The bonus payment as a percentage of the base salary at target of Mr. Flake established by our Compensation Committee was 50%.

Mr. Flake was also eligible to participate in an additional \$200,000 discretionary bonus pool in the event that we achieved the target bookings, delivered revenue and gross margin metrics. Our Compensation Committee determined these additional bonus amounts had not been earned for 2013.

*Cash Awards under the 2014 Bonus Plan*

Each of our named executive officers participated in the 2014 Bonus Plan, which provided for the amounts earned to be based on the following metrics:

Component	Weighting of Component as a % of Bonus Payment		
	Mr. Flake	Ms. Harris	Mr. Anderson
Bookings	50%	50%	25%
Individual Business Objectives			50%
Gross Margin	50%	50%	25%

The bookings component consisted of monthly recurring bookings revenue based on committed or contracted levels in our customer agreements, with an exclusion for one-time services. The gross margin component consists of our gross margin calculated in accordance with generally accepted accounting principles, but excluding stock based compensation expenses, capitalization and amortization. The 2014 Bonus Plan provided that the bookings and gross margin components were measured against bookings and gross margin targets based on the 2014 annual budget approved by our board of directors. The individual business objectives component consisted of business objectives specific to the individual named executive officer and was measured based upon attainment of specified target objectives.

The payouts under the 2014 Bonus Plan were based on our performance as a company within a range of each component's target. For Messrs. Flake and Anderson and Ms. Harris, no incentive payment was to be earned for performance below the target minimum and the maximum bonus was to

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be earned at the target maximum. The range and target for each component applicable to Messrs. Flake and Anderson and Ms. Harris are set forth in the following table:

Achievement Level	Percentage of Bookings and Gross Margin Component Attained	Corresponding Weighted Payout Percentage Per Component
Minimum	90%	50%
At target	100%	100%
Maximum	120%	150%

The bonus payment as a percentage of the base salary at target of each of our named executive officers established by our Compensation Committee, are set forth in the following table:

	% Base Salary at Target
Mr. Flake	73%
Ms. Harris	32%
Mr. Anderson	50%

**Outstanding Equity Awards at December 31, 2014**

The following table sets forth information regarding outstanding option awards held by our named executive officers at December 31, 2014.

Name	Number of Shares Underlying Unexercised Options Exercisable(1)	Number of Shares Underlying Unexercised Options Unexercisable(1)	Option Exercise Price	Option Expiration Date
Matthew P. Flake	85,165(2)		0.29	03/06/18
	2,181(3)		0.29	03/06/18
	1,084(4)		0.84	05/05/20
	150,000(5)	50,000(5)	3.10	12/07/21
		750,000(6)	8.35	01/24/21
Jennifer N. Harris	13,368(7)	42,188(7)	7.48	05/08/20
		211,560(8)	8.35	01/24/21
Adam D. Anderson	261,248(9)		0.35	02/15/18
	54,905(10)		0.54	12/12/18
	37,500(11)	12,500(11)	3.10	12/07/21
		200,000(12)	8.35	01/24/21

(1) Shares of common stock.

(2) This option grant was fully vested as of March 1, 2010 and is fully exercisable.

(3) This option grant was fully vested as of March 1, 2010 and is fully exercisable.

(4) This option grant was fully vested as of March 1, 2014 and is fully exercisable.

(5) This option grant vested as to 1/4 of the total option grant on December 7, 2012, and thereafter as to 1/48 of the total option grant monthly.



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- (6) This option grant vests as to 1/4 of the total option grant on January 24, 2016 and thereafter as to 1/32 of the total option grant monthly.
- (7) This option grant vests as to 1/4 of the total option grant on March 18, 2014 and thereafter as to 1/48 of the total option grant monthly.
- (8) This option grant vested as to 1/4 of the total option grant on January 24, 2015, and thereafter as to 1/48 of the total option grant monthly.
- (9) This option grant was fully vested as of February 15, 2012 and is fully exercisable.
- (10) This option grant was fully vested as of December 12, 2012 and is fully exercisable.
- (11) This option grant vests as to 1/4 of the total option grant on December 7, 2012, and thereafter as to 1/48 of the total option grant monthly.
- (12) This option grant vests as to 1/4 of the total option grant on January 24, 2016, and thereafter as to 1/32 of the total option grant monthly.

**Agreements with Named Executive Officers**

Each of our named executive officers is subject to certain obligations relating to non-competition, non-solicitation, proprietary information and assignment of inventions. Pursuant to these obligations, each named executive officer has agreed (i) not to solicit our employees during employment and for a period of 12 months after the termination of employment, (ii) not to compete with us or assist any other person to compete with us during employment and for a period of 12 months after the termination of employment and (iii) to protect our confidential and proprietary information and to assign to us intellectual property developed during the course of employment.

***Employment Agreements***

In February 2014, we entered an amended and restated employment agreement with Matthew P. Flake, our Chief Executive Officer and President, and employment agreements with each of Jennifer N. Harris, our Chief Financial Officer and Adam D. Anderson, our Executive Vice President and Chief Technology Officer. These agreements provide for at-will employment and generally include the named executive officer's initial base salary and an indication of eligibility for an annual cash incentive bonus opportunity. In addition, each of our named executive officers' option agreements provide for potential benefits due upon a termination of employment upon a change in control as described below under " Change in Control Acceleration."

These agreements provide for an annual base salary of \$345,000, \$250,000 and \$265,000 for Messrs. Flake and Anderson and Ms. Harris, respectively, and an annual cash incentive bonus opportunity at targets of \$250,000, \$125,000 and \$85,000 for Messrs. Flake and Anderson and Ms. Harris, respectively. Payment of any bonus to our named executive officers is subject to approval by our board of directors. Our named executive officers are also eligible to receive benefits that are substantially similar to the benefits received by our other employees.

Pursuant to the terms of their respective agreements, in the event any of our named executive officers is terminated without cause, (i) in the case of Mr. Flake, we will be obligated to continue paying him his then current monthly base salary and annual cash incentive bonus at target for 12 months, (ii) in the case of Ms. Harris, we will be obligated to continue paying her her then current monthly base salary for 12 months and (iii) in the case of Mr. Anderson, we will be obligated to continue paying him his then current monthly base salary for 6 months. The payment of these severance amounts are contingent on our named executive officers (i) executing a mutual release of claims and (ii) continuing to protect our confidential and proprietary information.

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"Cause" is defined in these employment agreements as a named executive officer's: (i) acts or omissions constituting gross negligence, recklessness or willful misconduct, (ii) material breach of the employment agreement or of his non-competition, non-solicitation, confidentiality and intellectual property assignment obligations to us, (iii) conviction or entry of a plea of nolo contendere for fraud, misappropriation, or embezzlement or any felony or crime of moral turpitude, (iv) willful neglect of duties, (v) unsatisfactory performance as determined, with respect to Mr. Flake, by the board of directors, or, with respect to Ms. Harris and Mr. Anderson, by our chief executive officer, (vi) failure to perform essential functions due to mental or physical disability or (vii) death.

Mr. Flake's employment agreement also provides that in the event he voluntarily terminates his employment with us for good reason, or is terminated without cause, in either case within 12 months following a change in control, or if an acquiring company does not assume or substitute for any options held by him, he will be entitled to acceleration of the vesting of all unvested stock options held by him.

"Good reason" is defined in Mr. Flake's employment agreement as: (i) a material reduction in his title or position or an assignment to him of operational authority or duties which are materially inconsistent with the usual and customary operational authority and duties of a person in his position in similarly situated companies, (ii) a material reduction in base compensation or (iii) required relocation to any place outside of a 50-mile radius of our current headquarters. Mr. Flake's agreement requires him to provide us with 30 days prior notice of any alleged event of good reason and give us 30 days to cure any such event.

***Change in Control Acceleration***

Under our 2007 Plan, the stock option agreements applicable to our executive officers and certain other management-level employees provide that if any executive officer, within 12 months of a change of control, (i) is terminated without cause or (ii) resigns for good reason, or if the acquiring company does not assume or substitute for any options held by such executive officer, then all of the unvested stock options shall become immediately vested and exercisable in full. Good reason has the same definition in these stock option agreements as in Mr. Flake's employment agreement described above.

"Cause" is defined in the option agreement as an optionee's: (i) theft, dishonesty, or falsification of our documents or records, (ii) improper use or disclosure of our confidential or proprietary information, (iii) any action which has a material detrimental effect on our reputation or business, (iv) the failure or inability to perform any reasonable assigned duties after written notice from us of, and a reasonable opportunity to cure, such failure or inability, (v) any material breach of any employment agreement with us, which breach is not cured pursuant to the terms of such agreement or (vi) the conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the participant's ability to perform his or her duties with us.

**Limitations of Liability; Indemnification of Directors and Officers**

Section 145 of the Delaware General Corporation Law, or Delaware law, authorizes a corporation's board of directors to grant, and authorizes a court to award, indemnity to officers, directors and other corporate agents. As permitted by Delaware law, our amended and restated certificate of incorporation provides that, to the fullest extent permitted by Delaware law, no director will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Pursuant to Delaware law such protection would be not available for liability:

for any breach of a duty of loyalty to us or our stockholders;

for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

for any transaction from which the director derived an improper benefit; or

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for an act or omission for which the liability of a director is expressly provided by an applicable statute, including unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware law.

Our amended and restated certificate of incorporation also provides that if Delaware law is amended after the approval by our stockholders of the amended and restated certificate of incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law.

Our amended and restated certificate of incorporation and amended and restated bylaws further provide that we must indemnify our directors and officers to the fullest extent permitted by Delaware law. Our amended and restated bylaws also authorize us to indemnify any of our employees or agents and authorize us to secure insurance on behalf of any officer, director, employee or agent for any liability arising out of his or her action in that capacity, whether or not Delaware law would otherwise permit indemnification.

In addition, our amended and restated bylaws provide that we are required to advance expenses to our directors and officers as incurred in connection with legal proceedings against them for which they may be indemnified and that the rights conferred in the amended and restated bylaws are not exclusive.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

We have also entered into indemnity agreements with each of our directors and executive officers. These agreements, among other things, require us to indemnify each director and officer to the fullest extent permitted by Delaware law and our amended and restated certificate of incorporation and bylaws for expenses such as, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as our director or executive officer or as the director or executive officer of any subsidiary of ours or any other company or enterprise to which the person provides services at our request. We also maintain directors' and officers' liability insurance.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought, and we are not aware of any threatened litigation that may result in material claims for indemnification. We believe that our indemnity agreements and our amended and restated certificate of incorporation and bylaw provisions are necessary to attract and retain qualified persons as directors and executive officers.

**Benefit Plans**

***2007 Stock Plan***

Our 2007 Stock Plan, as amended, or 2007 Plan, was adopted by our board of directors and approved by our stockholders on July 27, 2007. Our 2007 Plan provides for the grant of incentive stock options, nonstatutory stock options and stock purchase rights to our employees, directors and consultants who provide services to us. As of December 31, 2014, options to purchase 5,539,498 shares of common stock were outstanding and no future awards will be made under such plan. Our 2007 Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the

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2007 Plan. As of December 31, 2014, no awards had been granted under the 2007 Plan other than incentive stock options and nonqualified stock options.

Our standard form of option agreement under the 2007 Plan provides that options will vest 25% on the first anniversary of the vesting commencement date with the remainder vesting ratably over the next 36 months, subject to continued service through each applicable date. Our standard form of option agreement provides that in the event of a change in control, if the options are (i) not assumed or continued by the successor corporation, (ii) not exercised by the holder prior to the transaction or (iii) not cashed out at the time of the transaction, then the options will vest in full effective as of the time of the change in control. In addition, our standard form of option agreement provides that if a participant, within 12 months of a change of control, (i) is terminated without cause or (ii) resigns for good reason, or if the acquiring company does not assume or substitute for any options held by such participant, then all of then unvested stock options shall become immediately vested and exercisable in full. Stock options granted prior to August 8, 2012 had a maximum term of 10 years. Options granted on August 8, 2012 and later had a maximum term of seven years.

For purposes of the standard form of stock option agreement, the following definitions apply:

"Cause" is defined in the option agreement as: (i) theft, dishonesty, or falsification of our documents or records, (ii) improper use or disclosure of our confidential or proprietary information, (iii) any action which has a material detrimental effect on our reputation or business, (iv) the failure or inability to perform any reasonable assigned duties after written notice from us of, and a reasonable opportunity to cure, such failure or inability, (v) any material breach of any employment agreement with us, which breach is not cured pursuant to the terms of such agreement or (vi) the conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the participant's ability to perform his or her duties with us.

"Good reason" is defined in the option agreement (i) any failure to pay, or any material reduction of, base salary and (ii) any failure to (a) continue to provide the opportunity to participate, on terms no less favorable than those in effect, in any benefit or compensation plan in effect prior to the change in control or (b) provide all other fringe benefits then held.

Our 2007 Plan provides that our board of directors, or its designated committee, may equitably and proportionally adjust or substitute outstanding options upon certain events, including, without limitation, changes in our capitalization through stock splits, recapitalizations, mergers or consolidations. The standard form of option agreement under our 2007 Plan provides that the participants will not offer, sell, contract to sell, pledge, hypothecate, grant any option to purchase or make any short sale of, or otherwise dispose of any shares of our stock or any rights to acquire our stock for 180 days following this offering.

***2014 Equity Incentive Plan***

Our 2014 Equity Incentive Plan, or 2014 Plan, was approved by our board of directors and our stockholders in March 2014. It is intended to make available incentives that will assist us to attract, retain and motivate employees (including officers), consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards. As of December 31, 2014, 1,406,526 shares of common stock were available for issuance pursuant to our 2014 Plan.

A total of 1,850,000 shares of our common stock was initially authorized and reserved for issuance under the 2014 Plan. This reserve automatically increased on January 1, 2015 and will automatically increase 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 our board of directors. This reserve was also increased

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to include any shares remaining available under our 2007 Plan at the time of its termination and will be increased to include any shares issuable upon exercise of options granted under our 2007 Plan that expire or terminate without having been exercised in full.

Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2014 Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the 2014 Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations and the net number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the 2014 Plan.

The 2014 Plan is generally administered by our Compensation Committee. Subject to the provisions of the 2014 Plan, our Compensation Committee determines in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards and all of their terms and conditions. Our Compensation Committee has the authority to construe and interpret the terms of the 2014 Plan and awards granted under it. The 2014 Plan provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all judgments, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the 2014 Plan.

The 2014 Plan authorizes our Compensation Committee, without further stockholder approval, to provide for the cancellation of stock options or stock appreciation rights with exercise prices in excess of the fair market value of the underlying shares of common stock in exchange for new options or other equity awards with exercise prices equal to the fair market value of the underlying common stock or a cash payment.

Awards may be granted under the 2014 Plan to our employees (including officers), directors or consultants, or those of any present or future parent or subsidiary corporation or other affiliated entity. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following:

*Stock Options.* We may grant nonstatutory stock options or incentive stock options (as described in Section 422 of the Internal Revenue Code), each of which gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to purchase a number of shares of our common stock at an exercise price per share determined by the administrator, which may not be less than the fair market value of a share of our common stock on the date of grant.

*Stock Appreciation Rights.* A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our common stock or in cash, except that a stock appreciation right granted in tandem with a related option is payable only in stock.

*Restricted Stock.* We may grant restricted stock awards either as a bonus or as a purchase right at such price as the administrator determines. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as the administrator specifies. Holders of restricted stock will have the right to vote the shares and to receive any dividends paid, except that the dividends may be subject to the same vesting conditions as the related shares.



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*Restricted Stock Units.* Restricted stock units represent rights to receive shares of our common stock (or their value in cash) at a future date without payment of a purchase price (unless required under applicable state corporate laws), subject to vesting or other conditions specified by the administrator. Holders of restricted stock units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant restricted stock units that entitle their holders to dividend equivalent rights.

*Performance Shares and Performance Units.* Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights denominated in shares of our common stock, while performance unit awards are rights denominated in dollars. The administrator may establish the applicable performance goals based on one or more measures of business performance enumerated in the 2014 Plan, such as net revenues, gross margin, net income or total stockholder return. To the extent earned, performance share and unit awards may be settled in cash or in shares of our common stock. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant performance shares that entitle their holders to dividend equivalent rights.

*Cash-Based Awards and Other Stock-Based Awards.* The administrator may grant cash-based awards that specify a monetary payment or range of payments or other stock-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the administrator. Settlement of these awards may be in cash or shares of our common stock, as determined by the administrator. Their holder will have no voting rights or right to receive cash dividends unless and until shares of our common stock are issued pursuant to the award. The administrator may grant dividend equivalent rights with respect to other stock-based awards.

In the event of a change in control as described in the 2014 Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the 2014 Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. Our Compensation Committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards held by members of the board of directors who are not employees will automatically be accelerated in full. The 2014 Plan will also authorize our Compensation Committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

The 2014 Plan will continue in effect until it is terminated by the administrator, provided, however, that all awards will be granted, if at all, within 10 years of its effective date. The administrator may amend, suspend or terminate the 2014 Plan at any time, provided that without stockholder approval, the plan cannot be amended to increase the number of shares authorized, change the class of persons eligible to receive incentive stock options, or effect any other change that would require stockholder approval under any applicable law or listing rule.

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**2014 Employee Stock Purchase Plan**

In March 2014, our board of directors adopted and our stockholders approved our 2014 Employee Stock Purchase Plan, or ESPP, which our board has discretion to implement at any time after the completion of this offering.

A total of 800,000 shares of our common stock are available for sale under our ESPP. In addition, our ESPP provides for annual increases in the number of shares available for issuance under the ESPP on January 1, 2015 and each subsequent anniversary through 2024, equal to the smallest of:

500,000 shares;

1% of the issued and outstanding shares of our common stock on the immediately preceding December 31; or

such other amount as may be determined by our board of directors.

Our board of directors determined not to increase the shares available for sale under our ESPP on January 1, 2015, as the ESPP has not yet been implemented. Appropriate adjustments will be made in the number of authorized shares and in outstanding purchase rights to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are cancelled will again become available for issuance under the ESPP.

Our Compensation Committee will administer the ESPP and have full authority to interpret the terms of the ESPP. The ESPP provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all judgments, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the ESPP.

All of our employees, including our named executive officers, are eligible to participate if they are customarily employed by us for more than 20 hours per week and more than five months in any calendar year. However, an employee may not be granted rights to purchase stock under our ESPP if such employee:

immediately after the grant would own stock or options to purchase stock possessing 5.0% or more of the total combined voting power or value of all classes of our capital stock; or

holds rights to purchase stock under all of our employee stock purchase plans that would accrue at a rate that exceeds \$25,000 worth of our stock for each calendar year in which the right to be granted would be outstanding at any time.

Our ESPP is intended to qualify under Section 423 of the Internal Revenue Code. The ESPP will typically be implemented through consecutive six-month offering periods, generally starting on the first trading day on or after January 1 and July 1 of each year, except for the first such offering period, which will commence on a date to be determined by the administrator. The administrator may, in its discretion, modify the terms of future offering periods, including establishing offering periods of up to 27 months and providing for multiple purchase dates.

Our ESPP permits participants to purchase common stock through payroll deductions of up to 15% of their eligible cash compensation, which includes a participant's regular base wages or salary and payments of overtime, shift premiums and paid time off before deduction of taxes and certain compensation deferrals.

Amounts deducted and accumulated from participant compensation are used to purchase shares of our common stock at the end of each offering period. Unless otherwise provided by the administrator, the purchase price of the shares will be 85.0% of the lower of the fair market value of our common

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stock on the first trading day of the offering period or on the purchase date. Participants may end their participation at any time during an offering period and will receive a refund of their account balances not yet used to purchase shares. Participation ends automatically upon termination of employment with us.

Prior to the beginning of any offering period, the administrator may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest.

A participant may not transfer rights granted under the ESPP other than by will, the laws of descent and distribution or as otherwise provided under the ESPP. In the event of a change in control, an acquiring or successor corporation may assume our rights and obligations under outstanding purchase rights or substitute substantially equivalent purchase rights. If the acquiring or successor corporation does not assume or substitute for outstanding purchase rights, then the purchase date of the offering periods then in progress will be accelerated to a date prior to the change in control. Our ESPP will continue in effect until terminated by the administrator. Our Compensation Committee has the authority to amend, suspend or terminate our ESPP at any time.

**401(k)**

We have established a tax-qualified employee savings and retirement plan for all employees who satisfy certain eligibility requirements, including requirements relating to age and length of service. Under our 401(k) plan, employees may elect to reduce their current compensation by up to the statutory limit, \$17,000 in 2012 and \$17,500 in 2013 and 2014, and have us contribute the amount of this reduction to our 401(k) plan. We intend for our 401(k) plan to qualify under Section 401 of the Code so that contributions by employees or by us to our 401(k) plan and income earned on plan contributions are not taxable to employees until withdrawn from our 401(k) plan. We do not match employee contributions under our 401(k) plan. We may in the future choose to make matching contributions or additional contributions to our 401(k) plan in amounts determined annually.

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Since January 1, 2012, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than compensation arrangements with directors and executive officers, which are described where required in the section titled "Management" and the transactions described below.

**cbanc Network, Incorporated**

In March 2013, we conducted a spin-off of our former subsidiary, cbanc Network, Incorporated, or cbanc, to our stockholders at that time. The spin-off was conducted as a dividend of all of the outstanding capital stock of CBG Holdings, Inc., a newly formed holding company of cbanc, to our stockholders and, as a result, we no longer own any capital stock of cbanc. The aggregate value of cbanc at the time of the spin-off was deemed by our board of directors to be approximately \$4.0 million based in part on the valuation of an independent appraisal firm.

Also, in connection with the spin-off, we entered into a transition services agreement to provide operating services to CBG Holdings, Inc., generally consisting of accounting, finance, human resources and IT support for a period of 6 months. Immediately following the spin-off, R.H. "Hank" Seale, III, our Executive Chairman, became a director of CBG Holdings, Inc. and served as its Chief Executive Officer until December 2013.

**2013 Series C Preferred Stock Financing**

On March 1, 2013, we sold an aggregate of 2,605,094 shares of our Series C preferred stock at a purchase price of \$7.68 per share for an aggregate purchase price of \$20.0 million, all of which shares were sold to members of our board of directors, entities affiliated with certain members of our board of directors or holders of more than 5% of any class of our voting securities. The table below summarizes these sales:

<b>Purchaser</b>	<b>Shares of Series C Preferred Stock Purchased</b>	<b>Aggregate Purchase Price</b>
Entities affiliated with Adams Street Partners, LLC(1)	521,020	\$ 4,001,434
Entities affiliated with Battery Ventures(2)	2,026,183	15,561,085
Entities affiliated with C&B Capital(3)	28,945	222,298
James R. Offerdahl(4)	5,789	44,460
Texas Independent Bancshares, Inc.(5)	20,262	155,612
Michael J. Maples, Sr.(6)	2,895	22,234
<b>Total</b>	<b>2,605,094</b>	<b>\$ 20,007,123</b>

(1)

Consists of 27,188 shares purchased by Adams Street 2006 Direct Fund, L.P., 30,703 shares purchased by Adams Street 2007 Direct Fund, L.P., 168,350 shares purchased by Adams Street 2008 Direct Fund, L.P., 145,611 shares purchased by Adams Street 2009 Direct Fund, L.P., 82,715 shares purchased by Adams Street 2010 Direct Fund, L.P. and 66,453 shares purchased by Adams Street 2011 Direct Fund LP. Entities affiliated with Adams Street Partners, LLC are collectively holders of more than 5.0% of a class of our voting securities. Jeffrey T. Diehl, a partner of Adams Street Partners, LLC, is a member of our board of directors.

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- (2) Consists of 2,006,124 shares purchased by Battery Ventures IX, L.P. and 20,059 shares purchased by Battery Investment Partners IX, LLC. Entities affiliated with Battery Ventures are holders of more than 5.0% of a class of our voting securities. Michael M. Brown, an affiliate of Battery Ventures, is a member of our board of directors.
- (3) Consists of 15,897 shares purchased by C&B Capital II, L.P. and 13,048 shares purchased by C&B Capital II (PF), L.P. Entities affiliated with C&B Capital are holders of more than 5.0% of a class of our voting securities.
- (4) James R. Offerdahl is a member of our board of directors.
- (5) The chairman of the board of directors of Texas Independent Bancshares, Inc. is Charles T. Doyle, a member of our board of directors.
- (6) Michael J. Maples, Sr. is a member of our board of directors.

**2013 Private Placements**

On March 1, 2013 and April 22, 2013, certain of our existing stockholders, including members of our board of directors, entities affiliated with certain members of our board of directors or holders of more than 5% of any class of our voting securities, acquired an aggregate of 3,582,000 shares of our common stock from RHS Investments-I, L.P., an entity affiliated with R.H. "Hank" Seale, III, the Executive Chairman of our board of directors, Matthew P. Flake, our president and chief executive officer, Adam D. Anderson, our executive vice president and chief technology officer, and certain other minority stockholders, at a purchase price of \$6.98 per share. The table below summarizes these sales:

Purchaser	Shares of Common Stock Purchased	Aggregate Purchase Price
Entities affiliated with Adams Street Partners, LLC(1)	716,400	\$ 5,000,472
Entities affiliated with Battery Ventures(2)	2,786,000	19,446,280
Entities affiliated with C&B Capital(3)	39,800	277,804
James R. Offerdahl(4)	7,960	55,561
Texas Independent Bancshares, Inc.(5)	27,860	194,463
Michael J. Maples, Sr.(6)	3,980	27,780
<b>Total</b>	<b>3,582,000</b>	<b>\$ 25,002,360</b>

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- (1) Consists of 37,383 shares purchased by Adams Street 2006 Direct Fund, L.P., 42,217 shares purchased by Adams Street 2007 Direct Fund, L.P., 231,480 shares purchased by Adams Street 2008 Direct Fund, L.P., 200,214 shares purchased by Adams Street 2009 Direct Fund, L.P., 113,733 shares purchased by Adams Street 2010 Direct Fund, L.P. and 91,373 shares purchased by Adams Street 2011 Direct Fund LP. Entities affiliated with Adams Street Partners, LLC are collectively holders of more than 5.0% of a class of our voting securities. Jeffrey T. Diehl, a partner of Adams Street Partners, LLC, is a member of our board of directors.
- (2) Consists of 2,758,419 shares purchased by Battery Ventures IX, L.P. and 27,581 shares purchased by Battery Investment Partners IX, LLC. Entities affiliated with Battery Ventures are holders of more than 5.0% of a class of our voting securities. Michael M. Brown, an affiliate of Battery Ventures, is a member of our board of directors.
- (3) Consists of 21,589 shares purchased by C&B Capital II, L.P. and 17,941 shares purchased by C&B Capital II (PF), L.P. Entities affiliated with C&B Capital are holders of more than 5.0% of a class of our voting securities.

(4)

James R. Offerdahl is a member of our board of directors.

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- (5) The chairman of the board of directors of Texas Independent Bancshares, Inc. is Charles T. Doyle, a member of our board of directors.
- (6) Michael J. Maples, Sr. is a member of our board of directors.

On May 7, 2013, certain of our existing stockholders, including funds affiliated with Adams Street Partners, LLC (of which Jeffrey T. Diehl, one of our directors, is a partner) acquired an aggregate of (i) 247,221 shares of our common stock from certain minority stockholders, (ii) 53,919 shares of our junior preferred stock from certain minority stockholders and 16,708 shares of junior preferred stock held by David H. Johnston, a holder of more than 5.0% of our junior preferred stock, and (iii) 220,000 shares of our Series A preferred stock from certain minority stockholders, at a purchase price of \$6.98 per share for each of the common stock, junior preferred stock and Series A preferred stock. The table below summarizes these sales:

Type of Shares	Number of Shares Purchased by Entities affiliated with Adams Street Partners	Aggregate Purchase Price
Common Stock(1)	247,221	\$ 1,725,603
Junior Preferred Stock(2)	70,627	492,976
Series A Preferred Stock(3)	220,000	1,535,600
Total	537,848	\$ 3,754,179

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- (1) Consists of 89,866 shares purchased by Adams Street 2008 Direct Fund, L.P., 77,728 shares purchased by Adams Street 2009 Direct Fund, L.P., 44,154 shares purchased by Adams Street 2010 Direct Fund, L.P. and 35,473 shares purchased by Adams Street 2011 Direct Fund LP. Entities affiliated with Adams Street Partners, LLC are collectively holders of more than 5.0% of a class of our voting securities. Jeffrey T. Diehl, a partner of Adams Street Partners, LLC, is a member of our board of directors.
- (2) Consists of 25,673 shares purchased by Adams Street 2008 Direct Fund, L.P., 22,206 shares purchased by Adams Street 2009 Direct Fund, L.P., 12,614 shares purchased by Adams Street 2010 Direct Fund, L.P. and 10,134 shares purchased by Adams Street 2011 Direct Fund LP. Entities affiliated with Adams Street Partners, LLC are collectively holders of more than 5.0% of a class of our voting securities. Jeffrey T. Diehl, a partner of Adams Street Partners, LLC, is a member of our board of directors.
- (3) Consists of 79,972 shares purchased by Adams Street 2008 Direct Fund, L.P., 69,169 shares purchased by Adams Street 2009 Direct Fund, L.P., 39,292 shares purchased by Adams Street 2010 Direct Fund, L.P. and 31,567 shares purchased by Adams Street 2011 Direct Fund LP. Entities affiliated with Adams Street Partners, LLC are collectively holders of more than 5.0% of a class of our voting securities. Jeffrey T. Diehl, a partner of Adams Street Partners, LLC, is a member of our board of directors.

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Since January 1, 2012, the following executive officers, directors and holders of more than 5% of any class of our voting securities exercised options held by them:

Exercise Date	Optionee	Exercise Price	Number of Options Shares Exercised	Shares of Common Stock Issued
2/18/2013	James R. Offerdahl	\$ 4.00	13,875	13,875
2/18/2013	James R. Offerdahl	\$ 1.74	6,250	6,250
2/22/2013	Adam D. Anderson	\$ 0.35	42,211	42,211
2/22/2013	Adam D. Anderson	\$ 0.29	41,636	41,636
11/18/2013	James R. Offerdahl	\$ 4.00	10,406	10,406
11/18/2013	James R. Offerdahl	\$ 1.74	2,604	2,604
2/5/2014	Matthew P. Flake	\$ 0.84	50,916	50,916
2/5/2014	Matthew P. Flake	\$ 0.54	132,548	132,548
2/5/2014	Matthew P. Flake	\$ 0.35	67,130	67,130
2/18/2014	R. H. "Hank" Seale, III	\$ 0.54	172,548	172,548
2/18/2014	R. H. "Hank" Seale, III	\$ 0.35	159,090	159,090
2/18/2014	R. H. "Hank" Seale, III	\$ 0.29	208,180	208,180
3/17/2014	Barry G. Benton	\$ 1.74	31,000	31,000
11/24/2014	John E. Breeden	\$ 3.10	10,500	10,500
11/24/2014	Stephen C. Soukup	\$ 7.48	8,219	8,219
11/24/2014	Stephen C. Soukup	\$ 6.57	6,781	6,781
12/8/2014	Jennifer N. Harris	\$ 7.48	10,000	10,000
12/19/2014	Jennifer N. Harris	\$ 7.48	100	100
12/19/2014	John E. Breeden	\$ 3.10	560	560
12/23/2014	Jennifer N. Harris	\$ 7.48	9,344	9,344

**Amended and Restated Investors' Rights Agreements**

In March 2013, we entered into an amended and restated investors' rights agreement with certain of our stockholders, including R.H. "Hank" Seale, III, Matthew P. Flake, James R. Offerdahl, Michael J. Maples, Sr. each a member of our board of directors, and entities affiliated with Adams Street Partners, LLC and C&B Capital, David H. Johnston, Texas Independent Bancshares, Inc., RHS Investments-I, L.P., an entity controlled by our Executive Chairman and entities affiliated with Battery Ventures. The third amended and restated investors' rights agreement, among other things:

grants the stockholders who are party to this agreement certain registration rights with respect to shares of our common stock.

obligated us to deliver periodic financial statements to certain stockholders; and

granted a right of first offer with respect to sales of our shares by us, subject to specified exclusions, to R.H. "Hank" Seale, III, our Executive Chairman, and certain other stockholders.

For more information regarding the registration rights provided in this agreement, please refer to the section titled "Description of Capital Stock Registration Rights." Our obligation to deliver financial statements and the right of first offer described above terminated upon completion of our initial public offering in March 2014.

**Right of First Refusal and Co-Sale Agreement**



In March 2013, we entered into an amended and restated right of first refusal and co-sale agreement with certain of our stockholders, including R.H. "Hank" Seale, III, Matthew P. Flake,

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James R. Offerdahl and Michael J. Maples, Sr., each a member of our board of directors, entities affiliated with Adams Street Partners, LLC and C&B Capital, David H. Johnston, Texas Independent Bancshares, Inc., RHS Investments-I, L.P., an entity controlled by our Executive Chairman, and entities affiliated with Battery Ventures. The second amended and restated right of first refusal and co-sale agreement, among other things, granted the stockholders certain rights of first refusal and co-sale and put rights with respect to proposed transfers of our securities by RHS Investments-I, L.P. and granted us certain rights of first refusal with respect to proposed transfers of our securities by RHS Investments-I, L.P. This agreement terminated automatically upon completion of our initial public offering in March 2014.

**Voting Agreement**

In March 2013 we entered into an amended and restated voting agreement with certain of our stockholders, including R.H. "Hank" Seale, III, Matthew P. Flake, James R. Offerdahl and Michael J. Maples, Sr., each a member of our board of directors, entities affiliated with Adams Street Partners, LLC and C&B Capital, David H. Johnston, Texas Independent Bancshares, Inc., RHS Investments-I, L.P., an entity controlled by our Executive Chairman and entities affiliated with Battery Ventures. The second amended and restated voting agreement, among other things, provided for the voting of shares with respect to the constituency and size of the board of directors, provided for the designation of our directors by certain of our stockholders, the voting of shares with respect to the increase in the authorized capital stock, if needed to accommodate the conversion of preferred stock into common stock and the voting of shares with respect to certain transactions approved by certain stockholders. This agreement terminated upon completion of our initial public offering in March 2014. Each of Messrs. Brown, Diehl, Doyle, Flake, Maples, Offerdahl, Schaper and Seale was elected to our board of directors according to the provisions of this agreement. Notwithstanding the termination of this agreement, each of these directors will continue to serve on our board of directors until the election and qualification of his successor or his earlier death, resignation or removal.

**Employment Agreements**

See "Executive Compensation Agreements with Named Executive Officers Employment Agreements" for information on compensation and employment arrangements with our named executive officers.

**Indemnification of Officers and Directors**

Our amended and restated bylaws provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware law. Further, we have entered into indemnification agreements with each of our directors and officers. These agreements provide for the indemnification of our directors and officers for all reasonable expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were our agents. We believe that these indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance. For further information, see "Executive Compensation Limitations of Liability; Indemnification of Directors and Officers."

**Registration Rights**

For more information regarding these agreements, see "Description of Capital Stock Registration Rights." This section does not contain a complete description of the registration rights contained in our third amended and restated investors' rights agreement and is qualified by the full text of our third amended and restated investors' rights agreement filed as an exhibit to the registration statement of which this prospectus is a part.

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**Other Related Party Transactions**

Charles T. Doyle, a member of our board of directors, is the chairman emeritus of the board of directors and a shareholder of Texas First Bank, a current customer of the Company. Our revenues from Texas First Bank were approximately \$280,160, \$332,000 and \$368,935 in 2012, 2013 and 2014, respectively.

**Policies and Procedures for Related Party Transactions**

As provided by our Financial Audit Committee charter, our Financial Audit Committee must review and approve in advance any related party transaction. Pursuant to our Related Party Transactions Policy, all of our directors, officers and employees are required to report to our Corporate Secretary for review by our Financial Audit Committee any such related party transaction prior to its completion. Each of the related party transactions described above that was submitted to our board of directors was approved by disinterested members of our board of directors after disclosure of the interest of the related party in the transaction.

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**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table and footnotes set forth information with respect to the beneficial ownership of our common stock as of January 31, 2015, subject to certain assumptions set forth in the footnote and as adjusted to reflect the sale of the shares of common stock offered in the public offering under this prospectus for:

each stockholder, or group of affiliated stockholders, who we know beneficially owns more than 5% of the outstanding shares of our common stock;

each of our named executive officers;

each of our current directors;

all of our current directors and current executive officers as a group; and

each of the selling stockholders.

Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Except as indicated by footnote, and subject to applicable community property laws, we believe each person identified in the table possesses sole voting and investment power with respect to all shares of common stock beneficially owned by them, except for those jointly owned with that person's spouse. Shares of common stock subject to options currently exercisable or exercisable within 60 days of January 31, 2015 are deemed to be outstanding for calculating the number and percentage of outstanding shares of the person holding such options, but are not deemed to be outstanding for calculating the percentage ownership of any other person.

Applicable percentage ownership in the following table is based on 34,937,128 shares of common stock outstanding as of January 31, 2015, and 36,437,128 shares of common stock outstanding after completion of this offering.

Unless otherwise noted below, the address of each person listed on the table is c/o Q2 Holdings, Inc., 13785 Research Blvd, Suite 150, Austin, Texas 78750. Beneficial ownership representing less than 1% is denoted with an asterisk (\*). The statements concerning voting and investment power

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included in the footnotes to this table shall not be construed as admissions that such persons are the beneficial owners of such shares of common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned Prior to the Offering		Number of Shares Offered	Shares Beneficially Owned After the Offering		Number of Additional Shares to be Sold if Underwriters' Option is Exercised in Full	Shares Beneficially Owned After the Offering if Underwriters' Option is Exercised in Full	
	Shares	Percentage		Shares	Percentage		Shares	Percentage
<b>5% Stockholders:</b>								
Entities affiliated with Adams Street Partners, LLC(1)								
	9,755,263	27.9%	1,527,008	8,228,255	22.6%	235,801	7,992,454	21.8%
R.H. "Hank" Seale, III and affiliated entities(2)	6,176,192	17.7%	802,755	5,373,437	14.7%	120,413	5,253,024	14.3%
Entities affiliated with Battery Ventures(3)	4,812,183	13.8%	864,123	3,948,060	10.8%	135,877	3,812,183	10.4%
JPMorgan Chase & Co.(4)	2,136,998	6.1%		2,136,998	5.9%		2,136,998	5.8%
<b>Named Executive Officers and Directors:</b>								
Matthew P. Flake(5)	593,089	1.7%	88,962	504,127	1.4%		504,127	1.4%
Jennifer N. Harris(6)	79,761	*		79,761	*		79,761	*
Adam D. Anderson(7)	326,778	*	49,016	277,762	*		277,762	*
R. H. "Hank" Seale, III(2)	6,176,192	17.7%	802,755	5,373,437	14.7%	120,413	5,253,024	14.3%
Michael M. Brown(8)	4,815,388	13.8%	864,123	3,951,265	10.8%	135,877	3,815,388	10.4%
Jeffrey T. Diehl(1)	9,755,263	27.9%	1,527,008	8,228,255	22.6%	235,801	7,992,454	21.8%
Charles T. Doyle(9)	410,343	1.2%	51,475	358,868	1.0%	7,721	351,147	1.0%
Michael J. Maples, Sr.(10)	62,496	*		62,496	*		62,496	*
James R. Offerdahl(11)	72,235	*	8,000	64,235	*		64,235	*
Carl James Schaper(12)	268,204	*	40,230	227,974	*		227,974	*
All executive officers and directors as a group (15 persons)(13)	22,766,873	63.0%	3,456,950	19,309,923	51.4%	499,812	18,810,111	49.8%
<b>Other Selling Stockholders:</b>								
Texas Independent Bancshares, Inc.(14)	394,638	1.1%	51,475	343,163	*	7,721	335,442	*
Barry G. Benton(15)	39,500	*	5,925	33,575	*		33,575	*
John E. Breeden(16)	57,833	*	8,675	49,158	*		49,158	*
William M. Furrer(17)	43,333	*	6,500	36,833	*		36,833	*
David Johnston(18)	801,653	2.3%	165,403	636,250	1.7%	11,250	625,000	1.7%
Stephen C. Soukup(19)	31,458	*	4,281	27,177	*		27,177	*

(1) Represents 3,205 shares issuable to Jeffrey T. Diehl upon the exercise of options exercisable within 60 days of January 31, 2015, 3,076,278 shares held by Adams Street 2006 Direct Fund, L.P., or AS 2006, 3,473,966 shares held by Adams Street 2007 Direct Fund, L.P., or AS 2007, 1,163,877 shares held by Adams Street 2008 Direct Fund, L.P., or AS 2008, 1,006,672 shares held by Adams Street 2009 Direct Fund, L.P., or AS 2009, 571,845 shares held by Adams Street 2010 Direct Fund, L.P., or AS 2010, and 459,420 shares held by Adams Street 2011 Direct Fund LP, or AS 2011. The shares owned by each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010 and AS 2011 may be deemed to be beneficially owned by Adams Street Partners, LLC, the managing member of the general partner of each of AS 2006, AS 2007, AS 2008, AS 2009 and AS 2010 and the managing member of the general partner of the general partner of AS 2011. Thomas D. Berman, David Brett, Jeffrey T. Diehl, Elisha P. Gould, III, Robin P. Murray, Sachin Tulyani, Craig D. Waslin and David S. Welsh, each of whom is a partner of Adams Street Partners, LLC (or a subsidiary thereof), may be deemed to share voting and dispositive power over the shares held by AS 2006, AS 2007, AS 2008, AS 2009, AS 2010 and AS 2011. Mr. Diehl is a member of our board of directors. The address of each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010 and AS 2011 is One North Wacker Drive, Suite 2200, Chicago, Illinois 60606. For a discussion of our material relationships with AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, Adams Street Partners, LLC and Mr. Diehl, see "Certain Relationships and Related Party Transactions."

(2) Represents 5,606,817 shares held by RHS Investments-I, L.P., 539,818 shares held by Mr. Seale, 21,737 shares held by Mrs. Seale and 7,820 shares issuable to Mr. Seale upon the exercise of options exercisable within 60 days of January 31, 2015. Seale, Inc. is the general partner of RHS Investments-I, L.P. R.H. "Hank" Seale, III is the president of Seale, Inc.

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and has voting and dispositive power over the shares held by RHS Investments-I, L.P. Mr. Seale is Executive Chairman of our board of directors and served as our President and Chief Executive Officer until October 2013. For a discussion of our material relationships with Mr. Seale, see "Certain Relationships and Related Party Transactions."

- (3) Represents 4,764,543 shares held by Battery Ventures IX, L.P., or Battery Ventures IX, and 47,640 shares held by Battery Investment Partners IX, LLC, or BIP IX. Battery Partners IX, LLC, or BPIX, is the sole general partner of Battery Ventures IX and the sole managing member of BIP IX. BPIX's investment adviser is Battery Management Corp. (together with BPIX, the Battery Companies). Neeraj Agrawal, Michael M. Brown, Thomas J. Crotty, Jesse Feldman, Richard D. Frisbie, Kenneth P. Lawler, R. David Tabors, Scott R. Tobin and Roger H. Lee are the managing members and officers of the Battery Companies and may be deemed to share voting and dispositive power over the shares held by the Battery Ventures IX and BIP IX. The address for each of these entities is c/o Battery Ventures, One Marina Park Drive, Suite 1100, Boston, Massachusetts 02210. For a discussion of our material relationships with Battery Ventures IX, BIP IX and Mr. Brown, see "Certain Relationships and Related Party Transactions."
- (4) Based on a Schedule 13G filed on February 2, 2015. JPMorgan Chase & Co. has sole voting power with respect to 1,928,276 shares and sole dispositive power with respect to 2,136,998 shares. Such shares are held by JPMorgan Chase & Co. and its wholly owned subsidiaries in a fiduciary capacity. The address of JPMorgan Chase & Co. is 270 Park Avenue, New York, NY 10017.
- (5) Includes 250,930 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015. Mr. Flake is our current President and Chief Executive Officer and a member of our board of directors.
- (6) Represents shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015. Ms. Harris is our Chief Financial Officer.
- (7) Represents shares issuable upon exercise of options exercisable within 60 days of January 31, 2015. Mr. Anderson is our Executive Vice President and Chief Technology Officer.
- (8) Represents 3,205 shares issuable to Michael M. Brown upon the exercise of options exercisable within 60 days of January 31, 2015 and the shares held by Battery Ventures IX and BIP IX described in footnote (3) above. Mr. Brown is a member of our board of directors. For a discussion of our material relationships with Mr. Brown, see "Certain Relationships and Related Party Transactions."
- (9) Represents 394,638 shares held by Texas Independent Bancshares, Inc. and 15,705 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015. Mr. Doyle is the Chairman of the Board of Texas Independent Bancshares, Inc. and as such may be deemed to share voting and dispositive power over the shares held by Texas Independent Bancshares, Inc. Mr. Doyle disclaims beneficial ownership of the shares held by Texas Independent Bancshares, Inc., except to the extent of any pecuniary interest therein. Mr. Doyle is a member of our board of directors.
- (10) Includes 55,621 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015. Mr. Maples is a member of our board of directors.
- (11) Includes 25,351 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015. Mr. Offerdahl is a member of our board of directors.
- (12) Represents shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015. Mr. Schaper is a member of our board of directors.
- (13) Includes 1,212,644 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015.
- (14) Charles T. Doyle, a member of our board of directors, is the Chairman of the Board of Texas Independent Bancshares, Inc. and as such may be deemed to share voting and dispositive power over the shares held by Texas Independent Bancshares, Inc.
- (15) Includes 9,000 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015.
- (16) Includes 57,273 shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015.
- (17)

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Represents shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015.

(18)

Represents 181,004 shares held by David H. Johnston, 440,912 shares held by the Johnston 2007 Exempt Trust and 179,737 shares held by the Mojo Girls 2007 Exempt Trust. Mr. Johnston is the trustee of the Johnston 2007 Exempt Trust and the Mojo Girls 2007 Exempt Trust and as such may be deemed to share voting and dispositive power over the shares held thereby.

(19)

Represents shares issuable upon the exercise of options exercisable within 60 days of January 31, 2015.

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**DESCRIPTION OF CAPITAL STOCK**

*The following is a summary of our capital stock and certain provisions of our amended and restated certificate of incorporation and bylaws. This summary does not purport to be complete and is qualified in its entirety by the provisions of our restated certificate of incorporation and amended and restated bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.*

Our authorized capital stock consists of 150,000,000 shares of common stock, \$0.0001 par value, and 5,000,000 shares of undesignated preferred stock, \$0.0001 par value.

**Common Stock**

As of December 31, 2014, there were 34,695,544 shares of common stock outstanding that were held of record by 61 stockholders.

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive ratably any dividends declared by our board of directors out of assets legally available. See "Dividend Policy." Upon our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding shares of preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

**Preferred Stock**

Pursuant to our amended and restated certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue from time to time up to 5,000,000 shares of preferred stock, in one or more series. Our board will determine the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of any series, any or all of which may be greater than or senior to the rights of the common stock. The issuance of preferred stock could adversely affect the voting power of holders of common stock and reduce the likelihood that such holders will receive dividend payments and payments upon liquidation, and the likelihood that holders of preferred stock will receive dividend payments and payments upon liquidation may have the effect of delaying, deterring or preventing a change in control, which could depress the market price of our common stock. We have no current plan to issue any shares of preferred stock.

**Registration Rights**

We entered into a third amended and restated investors' rights agreement on March 1, 2013, or the Investors' Rights Agreement, with certain of our stockholders. Subject to the terms of this agreement, as of January 31, 2015 and prior to giving effect to this offering, holders of 14,564,241 shares had registration rights, which includes demand registration rights, piggyback registration rights and short-form registration rights. The following description of the terms of the Investors' Rights Agreement is intended as a summary only and is qualified in its entirety by reference to the Investors' Rights Agreement filed as an exhibit to the registration statement, of which this prospectus forms a part.



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To the extent holders of these registration rights have determined not to sell their shares in this offering, they have waived their contractual rights to include shares held by them in this offering and their rights to demand registration of their shares until the expiration of the lock-up period applicable to this offering. See "Underwriting."

The registration rights described below will terminate, with respect to any particular stockholder, upon the earlier of (i) seven years after the completion of our initial public offering in March 2014 or (ii) any period after this offering in which all registrable securities held by a particular stockholder may immediately be sold under Rule 144 or Rule 145.

***Demand Registration Rights***

Subject to certain exceptions, the holders of at least two-thirds of the then outstanding registrable securities with demand registration rights can request that we file up to three registration statements registering all or a portion of their registrable securities. Upon any such demand and as soon as practicable, we must file and use our best efforts to effect the registration of the registrable securities that we have been requested to register, together with all other registrable securities that we may have been requested to register by other stockholders pursuant to the piggyback registration rights described below. These registration rights are subject to specified conditions and limitations, including the right of the underwriters, if any, to limit the number of shares included in any such registration under specified circumstances. In addition, we are not obligated to effect a demand registration unless the proposed aggregate offering proceeds (after deduction for underwriters' discounts and expenses related to the issuance) of the shares to be registered by the holders requesting registration is at least \$20.0 million, and the per share offering price, net of underwriters' discounts and expenses, is at least \$5.00.

We have the ability to delay the filing of a registration statement, subject to certain restrictions, if the board of directors determines in its judgment that it would be materially detrimental to us and our stockholders for such registration to be effected at such time.

***Piggyback Registration Rights***

Pursuant to the Investors' Rights Agreement, whenever we propose to file a registration statement under the Securities Act, other than with respect to a registration related to employee benefit plans, a registration relating to the offer and sale of debt securities, a registration relating to a corporate reorganization or other Rule 145 transaction or a registration on any registration form that does not permit secondary sales, the holders of then outstanding registrable securities are entitled to notice of the registration and have the right to include their registrable securities in such registration. As of January 31, 2015 and prior to giving effect to this offering, the holders of approximately 14,564,241 shares of registrable securities were entitled to notice of this registration and were entitled to include their shares of common stock in the registration statement to the extent not waived. The underwriter(s) of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement.

***Short-Form Registration Rights***

We are required by the Investors' Rights Agreement to use all reasonable efforts to qualify for registration on Form S-3. If we become eligible to file a registration statement on Form S-3, the holders of at least 25% of the then outstanding registrable securities may request in writing that we effect a registration on Form S-3 under the Securities Act, so long as the proposed aggregate offering price of the shares to be registered by the holders requesting registration and the holders of any other securities of ours entitled to inclusion in such registration is at least \$1.0 million, subject to certain exceptions.

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***Expenses of Registration***

With specified exceptions, we are required to pay all expenses of registration, excluding underwriters' discounts, commissions and stock transfer taxes.

**Anti-Takeover Provisions Under Our Charter and Bylaws and Delaware Law**

Certain provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions, which are summarized below, may have the effect of discouraging coercive takeover practices and inadequate takeover bids. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquiror outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

***Undesignated Preferred Stock***

As discussed above, our board of directors has the ability to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. This ability and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of our company.

***Limitations on the Ability of Stockholders to Act by Written Consent or Call a Special Meeting***

We have provided in our amended and restated certificate of incorporation that our stockholders may not act by written consent. This inability of our stockholders to act by written consent may lengthen the amount of time required to take stockholder actions. As a result, a holder controlling a majority of our capital stock would not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws.

In addition, our amended and restated certificate of incorporation and amended and restated bylaws provide that special meetings of the stockholders may be called only by the chairperson of our board of directors, the chief executive officer or a majority of the board of directors. A stockholder may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

***Requirements for Advance Notification of Stockholder Nominations and Proposals***

Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. However, our amended and restated bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.

***Classified Board***

Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board of directors is divided into three classes with staggered three-year terms. As a result,

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one class (i.e., approximately one-third of our board of directors) will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective three-year terms. This provision may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time-consuming for stockholders to replace a majority of the directors on a classified board.

***Board Vacancies Filled Only by Majority of Directors***

Vacancies and newly created seats on our board of directors may be filled only by a majority of the number of then-authorized members of our board of directors. Only our board of directors may determine the number of directors. The inability of stockholders to determine the number of directors or to fill vacancies or newly created seats on our board of directors makes it more difficult to change the composition of our board of directors, but we believe that these provisions promote a continuity of existing management.

***No Cumulative Voting***

Delaware law provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless our amended and restated certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation provides that there shall be no cumulative voting and our amended and restated bylaws do not expressly provide for cumulative voting.

***Directors Removed Only for Cause***

Our amended and restated certificate of incorporation provides for the removal of a director only with cause and by the affirmative vote of the holders of at least 66-2/3% of the shares then entitled to vote at an election of our directors.

***Amendment of Charter Provisions***

The amendment of the provisions in our amended and restated certificate of incorporation requires approval by holders of at least 66-2/3% of our outstanding capital stock entitled to vote generally in the election of directors (in addition to any rights of the holders of our outstanding capital stock to vote on such amendment under Delaware law). The amendment of the provisions in our amended and restated bylaws requires approval by either a majority of our board of directors or holders of at least 66-2/3% of our outstanding capital stock entitled to vote generally in the election of directors (in addition to any rights of the holders of our outstanding capital stock to vote on such amendment under Delaware law).

***Delaware Anti-Takeover Statute***

We are subject to Section 203 of the Delaware law, which regulates corporate acquisitions of publicly held companies. This law provides that a specified person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the outstanding voting stock of a publicly held Delaware corporation or an interested stockholder, may not engage in business combinations with the company for a period of three years after the date on which the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in advance in a manner prescribed by Delaware law. This law does not include interested stockholders prior to the time our common stock was listed on the New York Stock Exchange. The law defines the term "business combination" to include mergers, asset sales and other transactions in which the interested stockholder receives or could receive a financial benefit on other than a pro rata basis with other stockholders. This provision has an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging

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takeover attempts that might result in a premium over the market price for the shares of our common stock. With the approval of our stockholders, we could amend our amended and restated certificate of incorporation in the future to avoid the restrictions imposed by this anti-takeover law.

The provisions of Delaware law and our amended and restated certificate of incorporation could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

***Limitations on Liability and Indemnification of Directors and Officers***

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our amended and restated certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law.

In addition, our amended and restated certificate of incorporation and bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by law. We also are expressly required to advance certain expenses to our directors and officers and are permitted to carry directors' and officers' insurance providing indemnification for our directors and officers for certain liabilities.

We have entered into separate indemnification agreements with each of our directors and executive officers. Each indemnification agreement provides, among other things, for indemnification to the fullest extent permitted by law and our amended and restated certificate of incorporation and bylaws against (i) any and all expenses and liabilities, including judgments, fines, penalties, interest and amounts paid in settlement of any claim with our approval and counsel fees and disbursements, (ii) any liability pursuant to a loan guarantee, or otherwise, for any of our indebtedness and (iii) any liabilities incurred as a result of acting on behalf of us (as a fiduciary or otherwise) in connection with an employee benefit plan. The indemnification agreements will provide for the advancement or payment of expenses to the indemnitee and for reimbursement to us if it is found that such indemnitee is not entitled to such indemnification under applicable law and our amended and restated certificate of incorporation and bylaws. Insofar as indemnification for liabilities arising under the Securities Act may be permitted for directors, officers or persons controlling us pursuant to the foregoing provisions, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We believe that these amended and restated certificate of incorporation and bylaws provisions and indemnification agreements as well as our maintaining directors' and officers' liability insurance help to attract and retain qualified persons as directors and officers.

***Transfer Agent and Registrar***

The Transfer Agent and Registrar for our common stock is American Stock Transfer & Trust Company, LLC.

**Listing**

Our common stock is listed on the New York Stock Exchange under the symbol "QTWO."

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**SHARES ELIGIBLE FOR FUTURE SALE**

Future sales of substantial amounts of our common stock in the public market could reduce prevailing market prices. Furthermore, since a substantial number of shares will be subject to contractual and legal restrictions on resale as described below, sales of substantial amounts of our common stock in the public market after these restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of 36,195,544 shares of common stock, assuming no exercise of outstanding options and no issuance of shares upon the vesting of restricted stock units. Of these shares, the 8,925,001 sold in our initial public offering, the 614,432 shares issued upon the exercise of stock options subsequent to the effectiveness of the registration statement on Form S-8 we filed with respect to our 2007 Plan, 2014 Plan and ESPP and all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless these shares are purchased by "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining 21,533,758 shares of common stock held by existing stockholders are "restricted securities," as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if their resale qualifies for an exemption from registration described below under Rules 144 or 701 promulgated under the Securities Act.

As a result of the contractual restrictions described below and the provisions of Rules 144 and 701, the restricted shares will be available for sale in the public market as follows:

2,692,087 shares will be eligible for sale upon completion of this offering; and

18,841,671 shares will be eligible for sale upon the expiration of the lock-up agreements, described below, beginning 90 days after the date of this prospectus.

In addition, of the 6,110,953 shares of our common stock that were subject to stock options outstanding as of December 31, 2014, options to purchase 2,855,045 shares were vested as of December 31, 2014. 1,058,815 shares issuable upon the exercise of such vested options will be eligible for sale upon the expiration of the lock-up agreements beginning 90 days after the date of this prospectus and the remaining shares issuable upon the exercise of such vested options will be eligible for sale upon completion of this offering. None of the 28,430 restricted stock units outstanding were vested as of December 31, 2014.

**Lock-Up Agreements and Obligations**

In connection with this offering, we, the selling stockholders and all directors and executive officers have agreed not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into shares or exercisable or exchangeable for shares of our common stock, or enter into any swap or other arrangement for transfer to another, in whole or in part, any of the economic consequences of ownership of our common stock, for a period of at least 90 days after the date of this prospectus, except for bona fide gifts to immediate family members, transfers to family trusts or distributions from trusts, distributions to affiliates or conversion or exercises of derivative securities provided that the shares underlying such derivative securities are held subject to such resale restrictions. Transfers or dispositions can be made sooner only under the conditions described above or with the prior written consent of J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Stifel, Nicolaus & Company, Incorporated, on behalf of the underwriters.

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**10b5-1 Plans**

Certain of our employees, including our executive officers, and directors have entered into written trading plans that are intended to comply with Rule 10b5-1 under the Securities Exchange Act. These plans permit the automatic trading of our common stock by an independent person (such as a stock broker) who is not aware of material, nonpublic information at the time of the trade and generally provide for sales to occur from time to time. Trades under these plans have been suspended for our directors and officers and selling stockholders who entered into lock-up agreements as described above.

**Rule 144**

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for a least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the provisions of Rule 144.

In general, under Rule 144 as currently in effect, our affiliates or persons selling shares on behalf of our affiliates who own shares that were acquired from us or an affiliate of ours at least six months prior to the proposed sale are entitled to sell upon expiration of the lock-up agreements described above, within any three-month period a number of shares that does not exceed the greater of:

1% of the number of shares of common stock then outstanding, which will equal approximately 361,955 shares immediately after this offering; and

The average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

**Rule 701**

Rule 701 of the Securities Act, as currently in effect, permits any of our employees, officers, directors or consultants who purchased or received shares from us pursuant to a written compensatory plan or contract to resell such shares in reliance upon Rule 144, but without compliance with certain restrictions. Subject to any applicable lock-up agreements, Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 without complying with the holding period requirement of Rule 144 and that non-affiliates may sell such shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation or notice requirements of Rule 144.

**Registration Rights**

After giving effect to this offering, the holders of an aggregate of 12,173,110 shares of our common stock, or their transferees, are entitled to rights with respect to the registration of their shares under the Securities Act in accordance with our Investors' Rights Agreement. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of such registration.

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**Form S-8 Registration Statements**

We have filed registration statements on Form S-8 under the Securities Act to register the shares of our common stock that are issuable pursuant to our 2007 Plan, 2014 Plan and ESPP. See "Executive Compensation Benefit Plans." Subject to the lock-up agreements described above, other contractual lock-up obligations set forth in the grant agreements under each such plan and any applicable vesting restrictions, shares registered under such registration statement became available for resale in the public market immediately upon the effectiveness of the applicable registration statement, except with respect to Rule 144 volume limitations that apply to our affiliates.

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**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES  
TO NON-U.S. HOLDERS OF COMMON STOCK**

This section summarizes the material U.S. federal income tax consequences to non-U.S. holders with respect to the ownership and disposition of our common stock issued pursuant to this offering. For purposes of this summary, a "non-U.S. holder" is any beneficial owner of our common stock who is not a partnership or other entity taxed as a partnership for U.S. federal income tax purposes or a U.S. person for U.S. federal income tax purposes. The term "U.S. person" means:

an individual citizen or resident of the U.S.;

a corporation or entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the U.S. or any state, including the District of Columbia or otherwise treated as such for U.S. federal income tax purposes;

an estate whose income is subject to U.S. income tax regardless of source; or

a trust (i) whose administration is subject to the primary supervision of a court within the U.S. and which has one or more U.S. persons who have authority to control all substantive decisions of the trust or (ii) which has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Generally, an individual may be treated as a resident of the U.S. in any calendar year for U.S. federal income tax purposes by, among other ways, being present in the U.S. for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, such individual would count all of the days in which the individual was present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Residents generally are taxed for U.S. federal income tax purposes as if they were citizens of the U.S.

The information provided below is based on existing authorities. These authorities may change, or the Internal Revenue Service, or IRS, might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of common stock could differ from those described below. This summary applies only to non-U.S. holders who acquire our common stock pursuant to this offering and who hold our common stock as a capital asset (generally property held for investment). This summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances or because they are subject to special rules. Certain former U.S. citizens or long-term residents, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, life insurance companies, tax-exempt organizations, dealers in securities or currencies, brokers, banks or other financial institutions, certain trusts, hybrid entities, pension funds and investors that hold our common stock as part of a hedge, straddle or conversion transaction are among those categories of potential investors that are subject to special rules not covered in this discussion. This summary does not provide a complete analysis of all potential tax considerations and does not address any U.S. federal estate and gift tax consequences, potential application of the net investment income or alternative minimum tax, or state or local or non-U.S. tax consequences.

This summary does not consider the tax consequences for partnerships, entities classified as a partnership for U.S. federal income tax purposes or persons who hold their interests through a partnership or other entity classified as a partnership for U.S. federal income tax purposes. If a partnership is a beneficial owner of our common stock, the tax treatment of an equity owner of the partnership will depend upon the status of such equity owner and the activities of the partnership or other entity taxed as a partnership. Accordingly, a partnership or other entity taxed as a partnership that is a beneficial owner of our common stock and equity owners of such partnerships should consult



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their tax advisors regarding the tax consequences to them of the ownership and disposition of our common stock.

THE FOLLOWING DISCUSSION IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. INVESTORS CONSIDERING THE PURCHASE OF OUR COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF OTHER U.S. FEDERAL, STATE OR LOCAL AND ANY NON-U.S. LAWS AND ANY APPLICABLE TAX TREATIES.

*Dividends*

We do not expect to make any payments of cash or other property to our stockholders with respect to our common stock in the foreseeable future. See "Dividend Policy." To the extent we make any such payments, other than payments of our common stock, such payments will constitute dividends to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those dividends exceed our current and accumulated earnings and profits, the dividends will constitute a return of capital and will first reduce a holder's basis, but not below zero, and then will be treated as gain from the sale of stock as described below under the heading "Gain on Disposition of Common Stock."

Distributions constituting a dividend paid to a non-U.S. holder will be subject to U.S. withholding at a rate equal to 30% of the gross amount of the dividend or a reduced rate prescribed by an applicable income tax treaty, unless the dividends are effectively connected with a trade or business carried on by the non-U.S. holder within the U.S. (or dividends attributable to a non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies). Under applicable Treasury Regulations, a non-U.S. holder will be required to satisfy certain certification requirements, generally on IRS Form W-8BEN or IRS Form W-8BEN-E, directly or through an intermediary, in order to claim a reduced rate of withholding under an applicable income tax treaty.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder (or dividends attributable to a non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies) are exempt from this withholding tax if the non-U.S. holder files the required forms, usually an IRS Form W-8ECI (or successor form) properly certifying this exemption. Effectively connected dividends (or dividends attributable to a permanent establishment), although not subject to withholding tax, are taxed at the same graduated U.S. federal income tax rates applicable to U.S. persons, net of certain deductions and credits. Dividends received by a corporate non-U.S. holder that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder (or dividends attributable to a corporate non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies) may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified in an income tax treaty). A non-U.S. holder who provides us with an IRS Form W-8BEN, an IRS Form W-8BEN-E or an IRS Form W-8ECI will be required to periodically update such form.

A non-U.S. holder of common stock that is eligible for a reduced rate of withholding tax pursuant to an income tax treaty may generally obtain a refund of any excess amounts currently withheld if an appropriate claim for refund is timely filed with the IRS.

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***Gain on Disposition of Common Stock***

A non-U.S. holder will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange, or other taxable disposition of common stock unless:

the gain is effectively connected with a U.S. trade or business of the non-U.S. holder (or attributable to a permanent establishment in the U.S. if an income tax treaty applies), in which case the non-U.S. holder generally will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates and, if the non-U.S. holder is a corporation, the branch profits tax may apply, at a 30% rate or such lower rate as may be specified by an applicable income tax treaty;

the non-U.S. holder is an individual who is present in the U.S. for a period or periods aggregating 183 days or more during the taxable year in which the sale or disposition occurs and certain other conditions are met, in which case the non-U.S. holder will be required to pay a flat 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the U.S. and such non-U.S. holder's country of residence) on the gain derived from the disposition, which gain may be offset by U.S. source capital losses, if any, provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or

our common stock constitutes a U.S. real property interest by reason of our status as a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the holder's holding period for our common stock. We believe that we are not currently, and we are not likely to become, a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If we become a U.S. real property holding corporation after this offering, so long as our common stock is regularly traded on an established securities market and continues to be so traded, our common stock will be treated as U.S. real property interests only if the non-U.S. holder actually or constructively held more than 5% of our common stock at any time during the shorter of the five-year period preceding the disposition or the non-U.S. holder's holding period for our common stock. Any such non-U.S. holder that owns or has owned, actually or constructively, more than 5% of our common stock is urged to consult that holder's own tax advisor with respect to the particular tax consequences to such holder for the gain from the sale, exchange or other disposition of shares of our common stock if we were to become a U.S. real property holding company.

***Backup Withholding and Information Reporting***

Generally, we must report annually to the IRS and to each non-U.S. holder the amount of dividends paid, the name and address of the recipient and the amount, if any, of tax withheld. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced by an applicable income tax treaty. Pursuant to income tax treaties or other agreements, the IRS may make its reports available to tax authorities in the non-U.S. holder's country of residence.

Payments of dividends or of proceeds on the disposition of stock made to a non-U.S. holder may be subject to additional information reporting and backup withholding, currently at a rate of 28%. Backup withholding will not apply if the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. person status on an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form). Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding

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results in an overpayment of taxes, a credit or refund may be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

***Legislation Relating to Foreign Accounts***

The Foreign Account Tax Compliance Act, or FATCA, generally may impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a foreign financial institution (as specifically defined by such law) unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). FATCA also generally may impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity unless such entity provides the withholding agent with either a certification that it does not have any substantial direct or indirect U.S. owners or provides information regarding direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. An intergovernmental agreement between the U.S. and an applicable foreign country may modify the requirements described in this paragraph. Holders are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in our common stock.

These withholding requirements apply for payments of dividends made on or after July 1, 2014 and are expected to be phased-in for payments of gross proceeds from a sale or other disposition of our common stock on or after January 1, 2017.

THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE OR LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING, AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

Table of Contents**UNDERWRITING**

We and the selling stockholders are offering the shares of common stock described in this prospectus through a number of underwriters. J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Stifel, Nicolaus & Company, Incorporated are acting as representatives of the underwriters named below. We and the selling stockholders have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we and the selling stockholders have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of our common stock listed next to its name in the following table:

<b>Name</b>	<b>Number of shares</b>
J.P. Morgan Securities LLC	1,383,035
Morgan Stanley & Co. LLC	1,383,035
Stifel, Nicolaus & Company, Incorporated	1,178,141
Raymond James & Associates, Inc.	461,012
Canaccord Genuity Inc.	358,565
Needham & Company, LLC	358,565
<b>Total</b>	<b>5,122,353</b>

The underwriters are committed to purchase all shares offered by us and the selling stockholders if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the shares directly to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of \$0.5925 per share. After the initial offering of the shares, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the U.S. may be made by affiliates of the underwriters.

The underwriters have an option to buy up to 768,352 additional shares of common stock from us and the selling stockholders. The underwriters have 30 days from the date of this prospectus to exercise this option to purchase additional shares. If any shares are purchased with this option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting discounts and commissions are equal to the public offering price per share of common stock less the amount paid by the underwriters per share of common stock. The underwriting discounts and commissions are \$0.9875 per share. The following table shows the per share and total

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underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Per share		Total	
	Without option exercise	With full option exercise	Without option exercise	With full option exercise
Public Offering Price	\$ 19.75	\$ 19.75	\$ 101,166,472	\$ 116,341,424
Underwriting discounts and commissions paid by us	\$ 0.9875	\$ 0.9875	\$ 1,481,250	\$ 1,735,324
Underwriting discounts and commissions paid by selling stockholders	\$ 0.9875	\$ 0.9875	\$ 3,577,074	\$ 4,081,747
Proceeds, before expenses, to us	\$ 18.7625	\$ 18.7625	\$ 28,143,750	\$ 32,971,154
Proceeds, before expenses, to selling stockholders	\$ 18.7625	\$ 18.7625	\$ 67,964,398	\$ 77,553,199

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, including selling stockholder expenses, but excluding the underwriting discounts and commissions, will be approximately \$0.6 million and will be paid by us. We have agreed to reimburse the underwriters for certain reasonable expenses and application fees incurred in connection with any filing with, and clearance of this offering by, the Financial Industry Regulatory Authority Inc., or FINRA.

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to the underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to the underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

We, all of our directors and executive officers and the selling stockholders have agreed that, subject to certain exceptions, without the prior written consent of J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Stifel, Nicolaus & Company, Incorporated on behalf of the underwriters, we and they will not, for a period of 90 days after the date of this prospectus:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock;

enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of common stock or any security convertible into or exercisable or exchangeable for common stock; or

make any demand for or exercise any right with respect to the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock;

with respect to the first and second bullets above, whether any such transaction is to be settled by delivery of common stock or such other securities, in cash or otherwise.

The 90-day restricted period described in the preceding paragraph will be extended if, during any period that we are not an emerging growth company:

during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs; or

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prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period;

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Our common stock is listed on the New York Stock Exchange under the symbol "QTWO."

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, or purchasing and selling shares of, common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the underwriters' option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the New York Stock Exchange, as applicable, in the over-the-counter market or otherwise.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their affiliates may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they may receive customary fees and commissions. In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and

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securities activities may involve our securities and/or instruments. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**Selling Restrictions**

Other than in the U.S., no action has been taken by us, the selling stockholders or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities referred to by this prospectus in any jurisdiction in which such an offer or solicitation is unlawful.

***Dubai International Financial Centre***

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or DFSA. This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus or taken steps to verify the information set forth herein and has no responsibility for the prospectus. The securities to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this prospectus, you should consult an authorized financial advisor.

***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each, a Relevant Member State, an offer to the public of any shares which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares shall result in a requirement for the publication by us, the selling stockholders, or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

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For the purposes of this provision, the expression an "offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression "2010 PD Directive" means Directive 2010/73/EU.

***Hong Kong***

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere, other than with respect to the shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

***Japan***

The shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, or the Financial Instruments and Exchange Law. Accordingly, no resident of Japan may participate in the offering of the shares, and each underwriter has agreed that it will not offer or sell any shares, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

***Singapore***

The offer or invitation which is the subject of this document is only allowed to be made to the persons set out herein. Moreover, this document is not a prospectus as defined in the Securities and Futures Act (Chapter 289) of Singapore, or the SFA, and, accordingly, statutory liability under the SFA in relation to the content of the document will not apply.

As this document has not been and will not be lodged with or registered as a document by the Monetary Authority of Singapore, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the



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SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person who is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA except:
  - (1) to an institutional investor under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;
  - (2) where no consideration is given for the transfer; or
  - (3) by operation of law.

By accepting this document, the recipient hereof represents and warrants that he or she is entitled to receive such report in accordance with the restrictions set forth above and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

***Switzerland***

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX or on any other stock exchange or regulated trading facility in Switzerland.

This document has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under article 27 et seq. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the company or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority, FINMA, and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

***United Arab Emirates***

This offering has not been approved or licensed by the Central Bank of the United Arab Emirates, or UAE, Securities and Commodities Authority of the UAE and/or any other relevant licensing

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authority in the UAE, including any licensing authority incorporated under the laws and regulations of any of the free zones established and operating in the territory of the UAE, in particular the Dubai Financial Services Authority, or DFSA, a regulatory authority of the Dubai International Financial Centre, or DIFC. This offering does not constitute a public offer of securities in the UAE, DIFC and/or any other free zone in accordance with the Commercial Companies Law, Federal Law No 8 of 1984 (as amended), DFSA Offered Securities Rules and Nasdaq Dubai Listing Rules, accordingly, or otherwise. The shares may not be offered to the public in the UAE and/or any of the free zones.

The shares may be offered and issued only to a limited number of investors in the UAE or any of its free zones who qualify as sophisticated investors under the relevant laws and regulations of the UAE or the free zone concerned.

***United Kingdom***

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of the shares in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

**LEGAL MATTERS**

DLA Piper LLP (US), Austin, Texas, will provide us with an opinion as to the validity of the common stock offered under this prospectus. Wilson Sonsini Goodrich & Rosati, Professional Corporation, Austin, Texas, will pass upon certain legal matters related to this offering for the underwriters.

**EXPERTS**

Our consolidated financial statements at December 31, 2014 and 2013, and for each of the three fiscal years in the period ended December 31, 2014, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered under this prospectus. As permitted under the rules and regulations of the SEC, this prospectus does not contain all of the information in and exhibits and schedules to the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and its exhibits and schedules. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference. You may inspect a copy of the registration statement without charge at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the Public Reference Room of the SEC, 100 F Street, NE, Washington, DC 20549, upon payment of fees prescribed by the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is <http://www.sec.gov>. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330.

We are subject to the information reporting requirements of the Exchange Act, and we file reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information are available for inspection and copying at the SEC's Public Reference Room and the website of the SEC referred to above. We also maintain a website at [www.q2ebanking.com](http://www.q2ebanking.com). You may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus.

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent registered public accounting firm and quarterly reports for the first three fiscal quarters of each fiscal year containing unaudited interim financial information. Our telephone number is (512) 275-0072.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Q2 Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Q2 Holdings, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive loss, changes in stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Q2 Holdings, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Austin, Texas  
February 12, 2015

Table of Contents**Q2 HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	<b>December 31,</b>	
	<b>2013</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 18,675	\$ 67,979
Restricted cash	116	829
Investments		20,956
Accounts receivable, net	9,063	5,007
Prepaid expenses and other current assets	1,079	2,695
Deferred solution and other costs, current portion	3,124	5,060
Deferred implementation costs, current portion	1,814	1,996
Total current assets	33,871	104,522
Property and equipment, net	14,831	18,521
Deferred solution and other costs, net of current portion	5,358	7,159
Deferred implementation costs, net of current portion	4,560	5,378
Other long-term assets	2,488	1,226
Total assets	\$ 61,108	\$ 136,806
<b>Liabilities, redeemable convertible preferred stock, redeemable common stock and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 4,085	\$ 1,986
Accrued liabilities	7,288	9,268
Accrued compensation	4,376	3,936
Deferred revenues, current portion	12,728	17,289
Capital lease obligations, current portion	714	408
Total current liabilities	29,191	32,887
Deferred revenues, net of current portion	14,773	19,436
Capital lease obligations, net of current portion	575	167
Long-term debt, net of current portion	6,288	
Deferred rent, net of current portion	4,444	4,694
Other long-term liabilities	101	682
Total liabilities	55,372	57,866
Commitments and contingencies (Note 9)		
Redeemable convertible preferred stock and redeemable common stock:		
Series A preferred stock: \$0.0001 par value; 7,908 shares authorized, issued and outstanding as of December 31, 2013; no shares authorized, issued or outstanding as of December 31, 2014	10,815	
Series B preferred stock: \$0.0001 par value; 1,818 shares authorized, issued and outstanding as of December 31, 2013; no shares authorized, issued or outstanding as of December 31, 2014	10,915	
Series C preferred stock: \$0.0001 par value; 2,605 shares authorized, issued and outstanding as of December 31, 2013; no shares authorized, issued or outstanding as of December 31, 2014	18,995	
Common stock: 3,829 shares outstanding as of December 31, 2013; no shares outstanding as of December 31, 2014	1,327	
Stockholders' equity (deficit):		
Junior convertible preferred stock: \$0.0001 par value; 1,251 shares authorized, issued and outstanding as of December 31, 2013; no shares authorized, issued or outstanding as of December 31, 2014	1,740	
Preferred stock: \$0.0001 par value; no shares authorized, issued and outstanding as of December 31, 2013; 5,000 shares authorized, no shares issued and outstanding as of December 31, 2014		
Common stock: \$0.0001 par value; 35,000 shares authorized, 8,288 shares issued and outstanding as of December 31, 2013; 150,000 shares authorized, 34,697 shares issued, and 34,696 shares outstanding as of December 31, 2014	1	3
Treasury stock at cost; zero and 1 shares at December 31, 2013 and 2014, respectively		(20)

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Additional paid-in capital	6,675	143,337
Accumulated other comprehensive loss		(14)
Accumulated deficit	(44,732)	(64,366)
Total stockholders' equity (deficit)	(36,316)	78,940
Total liabilities, redeemable convertible preferred stock, redeemable common stock and stockholders' equity (deficit)	\$ 61,108	\$ 136,806

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

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Table of Contents**Q2 HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(in thousands, except per share data)**

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Revenues	\$ 41,101	\$ 56,872	\$ 79,129
Cost of revenues(1)	25,170	36,261	46,054
Gross profit	15,931	20,611	33,075
Operating expenses:			
Sales and marketing(1)	8,962	16,726	23,069
Research and development(1)	5,317	9,029	12,086
General and administrative(1)	8,780	11,742	16,991
Unoccupied lease charges		236	
Total operating expenses	23,059	37,733	52,146
Loss from operations	(7,128)	(17,122)	(19,071)
Other income (expense):			
Interest income	4	6	65
Interest and other expense	(232)	(505)	(557)
Total other expense, net	(228)	(499)	(492)
Loss before income taxes	(7,356)	(17,621)	(19,563)
Provision for income taxes	(164)	(55)	(71)
Loss from continuing operations	(7,520)	(17,676)	(19,634)
Loss from discontinued operations, net of tax	(1,259)	(199)	
Net loss	\$ (8,779)	\$ (17,875)	\$ (19,634)
Other comprehensive loss:			
Unrealized loss on available-for-sale investments			(14)
Comprehensive loss	\$ (8,779)	\$ (17,875)	\$ (19,648)
Net loss per common share:			
Loss from continuing operations per common share, basic and diluted	\$ (0.66)	\$ (1.49)	\$ (0.67)
Loss from discontinued operations per common share, basic and diluted	\$ (0.11)	\$ (0.02)	\$



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Net loss per common share, basic and diluted \$ (0.77) \$ (1.51) \$ (0.67)

Weighted average common shares outstanding:

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

(1)

Includes stock-based compensation expenses as follows:

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

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

Table of Contents**Q2 HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**

(in thousands)

	Junior Convertible Preferred Stock		Common Stock		Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholder's Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance at January 1, 2012	1,251	\$ 1,740	11,337	\$ 1	\$	\$ 5,087	\$	\$ (18,078)	\$ (11,250)
Stock-based compensation						1,031			1,031
Exercise of stock options			42			17			17
Net loss								(8,779)	(8,779)
Balance at December 31, 2012	1,251	1,740	11,379	1		6,135		(26,857)	(18,981)
Stock-based compensation						1,605			1,605
Reclass to redeemable common stock			(3,829)			(1,327)			(1,327)
Exercise of stock options			738			435			435
Distribution associated with spin-off						(173)			(173)
Net loss								(17,875)	(17,875)
Balance at December 31, 2013	1,251	1,740	8,288	1		6,675		(44,732)	(36,316)
Stock-based compensation						4,570			4,570
Conversion of Series A, B, C Preferred Stock, Redeemable Common Stock and Junior Preferred Stock into Common Stock on initial public offering	(1,251)	(1,740)	17,412	1		43,790			42,051
Initial public offering, net of issuance costs			7,414	1		86,285			86,286
Exercise of stock options			1,583			2,017			2,017
Shares acquired to settle the exercise of stock options			(1)		(20)				(20)
Other comprehensive loss							(14)		(14)
Net loss								(19,634)	(19,634)
Balance at December 31, 2014		\$	34,696	\$ 3	\$ (20)	\$ 143,337	\$ (14)	\$ (64,366)	\$ 78,940

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

Table of Contents**Q2 HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (8,779)	\$ (17,875)	\$ (19,634)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred implementation, solution and other costs	1,869	2,837	4,435
Depreciation and amortization	1,697	2,971	4,083
Amortization of debt issuance costs		68	96
Amortization of premiums on investments			17
Stock-based compensation expenses	1,031	1,605	4,570
Loss from discontinued operations	1,259	199	
Allowance for sales credits	51	57	65
Loss on disposal of long-lived assets	24	18	
Unoccupied lease charges		236	
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,013)	(3,267)	3,991
Prepaid expenses and other current assets	124	(414)	(628)
Deferred solution and other costs	(1,728)	(4,011)	(5,329)
Deferred implementation costs	(2,625)	(3,155)	(3,842)
Other long-term assets	(182)	(1,539)	(244)
Accounts payable	1,949	1,326	(842)
Accrued liabilities	1,094	5,523	(1,398)
Deferred revenue	4,299	9,706	9,224
Deferred rent and other long-term liabilities	41	4,444	150
<b>Net cash used in continuing operations</b>	<b>(1,889)</b>	<b>(1,271)</b>	<b>(5,286)</b>
Net cash used in discontinued operating activities	(1,120)	(236)	
<b>Net cash used in operating activities</b>	<b>(3,009)</b>	<b>(1,507)</b>	<b>(5,286)</b>
<b>Cash flows from investing activities:</b>			
Purchases of investments			(23,216)
Maturities of investments			2,230
Purchases of property and equipment	(1,804)	(11,138)	(5,036)
Acquisitions and purchase of intangible assets	(425)	(125)	
Increase in restricted cash	(116)		(713)
Cash included in distribution of spin-off		(46)	
<b>Net cash used in continuing investing activities</b>	<b>(2,345)</b>	<b>(11,309)</b>	<b>(26,735)</b>
Net cash used in discontinued investing activities	(261)		
<b>Net cash used in investing activities</b>	<b>(2,606)</b>	<b>(11,309)</b>	<b>(26,735)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of preferred stock, net of issuance costs		18,995	
Proceeds from borrowings on line of credit		6,350	12,500
Payments on line of credit		(2,682)	(18,710)
Payments on capital lease obligations	(654)	(718)	(748)
Proceeds from issuance of common stock, net of issuance costs			86,286
Proceeds from exercise of stock options to purchase common stock	17	435	2,017
Shares acquired to settle the exercise of stock options			(20)
<b>Net cash provided by (used in) financing activities</b>	<b>(637)</b>	<b>22,380</b>	<b>81,325</b>

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Net increase (decrease) in cash and cash equivalents	(6,252)	9,564	49,304
Cash and cash equivalents, beginning of period	15,363	9,111	18,675
Cash and cash equivalents, end of period	\$ 9,111	\$ 18,675	\$ 67,979

**Supplemental disclosures of cash flow information:**

Cash paid for taxes	\$ 199	\$ 164	\$ 55
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Cash paid for interest	\$ 184	\$ 377	\$ 419
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**Supplemental disclosure of non-cash investing activities:**

Equipment acquired under capital lease	\$ 1,185	\$ 975	\$
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Data center assets acquired under financing arrangements	\$	\$	\$ 5,209
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The accompanying notes are an integral part of these consolidated financial statements.

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**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.

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**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, 2012, 2013, or 2014. No individual customer accounted for 10% or more of accounts receivable, net, as of December 31, 2013 or 2014.

***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, 2013 and 2014 were unbilled receivables of \$1.8 million and \$2.3 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, 2013 and 2014, 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.

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

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

	<b>Beginning Balance</b>		<b>Additions</b>		<b>Deductions</b>		<b>Ending Balance</b>
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

***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 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 the Company 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 \$4.6 million and \$7.0 million as of December 31, 2013 and 2014, 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.

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

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.

***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.



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**Q2 HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share amounts and unless otherwise indicated)**

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. 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

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**Q2 HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share amounts and unless otherwise indicated)**

standard subscription fee, which include fees for transactions processed during the period, are recognized as revenue in the month when the usage amounts are determined and reported. Any revenues related to upfront implementation services are recognized ratably over the same customer agreement term. Amounts that have been invoiced are recorded in accounts receivable and deferred revenues or revenues, depending on whether the revenue recognition criteria have been met.

*Professional Services Revenues*

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

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

*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, 2012, 2013 and 2014, 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,

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**Q2 HOLDINGS, INC.**

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**(in thousands, except per share amounts and unless otherwise indicated)**

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 \$2.6 million, \$3.2 million and \$3.8 million for the years ended December 31, 2012, 2013 and 2014, 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 \$0.3 million and \$0.5 million for the years ended December 31, 2013 and 2014, 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.

***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

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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.

***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,

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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, 2012, 2013 and 2014, basic and diluted net loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive.

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

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

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Due to net losses for each of the years ended December 31, 2012, 2013 and 2014, 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,		
	2012	2013	2014
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	4,765	5,422	6,139
<b>Total anti-dilutive common share equivalents</b>	<b>15,742</b>	<b>18,583</b>	<b>6,139</b>

***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.

**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;

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

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments:</b>				
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.

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, 2013 and 2014 consisted primarily of cash, U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposits and money market funds.

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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, 2013 and 2014, the Company's cash was \$18.7 million and \$48.7 million, respectively.

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

<b>Cash Equivalents:</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
Money market funds	\$ 17,865	\$	\$	\$ 17,865
Certificates of deposit	1,456			1,456
	\$ 19,321	\$	\$	\$ 19,321

<b>Investments:</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
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.

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:

	<b>December 31,</b>	
	<b>2013</b>	<b>2014</b>
Due within one year or less	\$	\$ 9,095
Due after one year through five years		11,861
<b>Total</b>	<b>\$</b>	<b>\$ 20,956</b>



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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)
<b>Total</b>	<b>\$ 13,708</b>	<b>\$ (14)</b>

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,	
	2013	2014
Deferred solution costs	\$ 2,174	\$ 3,585
Deferred commissions	950	1,475
<b>Deferred solution and other costs, current portion</b>	<b>\$ 3,124</b>	<b>\$ 5,060</b>
Deferred solution costs	\$ 1,721	\$ 1,684
Deferred commissions	3,637	5,475
Deferred solution and other costs, net of current portion	\$ 5,358	\$ 7,159

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:

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

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

**7. Accrued Liabilities**

Accrued liabilities consisted of the following:

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

**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

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**Q2 HOLDINGS, INC.**

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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 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 \$0.9 million, \$1.4 million, and \$1.0 million for the years ended December 31, 2012, 2013 and 2014, 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.

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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.

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:

	<b>Capital Leases</b>	<b>Operating Leases</b>
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.

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

Year Ended December 31,	<b>Contractual Commitments</b>
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.

**10. Stockholder's Equity*****Initial Public Offering***

On March 25, 2014, the Company completed its initial public offering, or 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



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one share of undesignated common stock. The following table presents the conversion of all classes of stock on March 25, 2014:

	<b>Prior to Conversion</b>	<b>Subsequent to Conversion</b>
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 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

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

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:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	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, 2012, 2013 and 2014 was \$0.2 million, \$4.8 million and \$17.3 million, respectively. The total fair value of stock options vested during each of the years ended December 31, 2012, 2013 and 2014 was \$0.8 million, \$1.2 million, and \$2.2 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.



Table of Contents**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,		
	2012	2013	2014
<b>Current taxes:</b>			
Federal	\$	\$	\$
State	162	52	67
Total current taxes	\$ 162	\$ 52	\$ 67
<b>Deferred taxes:</b>			
Federal	\$	\$	\$
State	2	3	4
Total deferred taxes	2	3	4
Provision for income taxes	\$ 164	\$ 55	\$ 71

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.

Table of Contents**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:

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

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:

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

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.

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The Company had not recorded any tax reserves related to uncertain tax positions as of December 31, 2012, 2013 and 2014. The Company's policy is to accrue interest and penalties related to

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**Q2 HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share amounts and unless otherwise indicated)**

uncertain tax positions as a component of income tax expense. For the years ended December 31, 2012, 2013 and 2014, the Company did not incur any interest or penalties.

**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, 2012, 2013 and 2014, the Company recorded revenues from a related-party customer of \$0.3 million, \$0.3 million and \$0.4 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 2013 and 2014 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)

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Registered users(1)	2,609	2,900	2,956	3,124	3,447	3,941	4,123	4,340
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(1)  
Represents registered users at the end of the period.

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