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DELTA REPORT

10-Q

QTWO - Q2 HOLDINGS, INC.

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	581
CHANGES	197
DELETIONS	186
ADDITIONS	198

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2024 June 30, 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ___________

Commission File Number **001-36350**

Q2 Holdings, Inc.

Exact Name of Registrant as Specified in its Charter

Delaware	**20-2706637**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
10355 Pecan Park Boulevard **Austin, Texas**	**78729**
Address of Principal Executive Offices	Zip Code

(833) 444-3469

Registrant's Telephone Number, Including Area Code

Not Applicable

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 60,099,512 60,283,172 shares of Common Stock, $0.0001 par value per share as of April 30, 2024 July 31, 2024.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The statements and information contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. You can identify these statements by words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "potential," "predicts," "projects," "should," "will," "strategy," "future," "likely," or "would" or the negative of these terms or similar expressions. These statements are not guarantees of *future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Factors that could cause or contribute to such differences include, but are not limited to, the following:*

- *global macroeconomic uncertainties and challenges or changes in the financial services industry and credit markets, including as a result of recent bank failures, mergers and acquisitions within the banking sector, inflation, higher interest rates and any potential additional monetary policy measures and their potential impacts on our prospects' and customers' operations, the timing of prospect and customer implementations and purchasing decisions, our business sales cycles and on account holder or end user, or End User, usage of our solutions;*
- *the risk of increased or new competition in our existing markets and as we enter new markets or new segments of existing markets, or as we offer new solutions;*
- *the risks associated with the development of our solutions, including AI-based solutions, and changes to the market for our solutions compared to our expectations;*
- *quarterly fluctuations in our operating results relative to our expectations and guidance and the accuracy of our forecasts;*
- *the risks and increased costs associated with managing growth and global operations, including hiring, training, retaining and motivating employees to support such growth, particularly in light of recent macroeconomic challenges, including increased competition for talent, employee turnover, labor shortages and wage inflation;*
- *the risks associated with our transactional business which are typically driven by End-User behavior and can be influenced by external drivers outside of our control;*
- *the risks associated with effectively managing our business and cost structure in an uncertain macroeconomic environment, including as a result of challenges in the financial services industry and the effects of seasonality and unexpected trends;*
- *the risks associated with geopolitical uncertainties, including the heightened risk of state-sponsored cyberattacks or cyber fraud on financial services and other critical infrastructure, and political uncertainty or discord, including related to the 2024 U.S. presidential election;*
- *the risks associated with accurately forecasting and managing the impacts of any macroeconomic downturn or challenges in the financial services industry on our customers and their End Users, including in particular the impacts of any downturn on financial technology companies, or FinTechs, or alternative finance companies, or Alt-FIs, and our arrangements with them, which represent a newer market opportunity for us, a more complex revenue model for us and which may be more vulnerable to an economic downturn than our financial institution customers;*
- *the challenges and costs associated with selling, implementing and supporting our solutions, particularly for larger customers with more complex requirements and longer implementation processes, including risks related to the timing and predictability of sales of our solutions and the impact that the timing of bookings may have on our revenue and financial performance in a period;*
- *the risk that errors, interruptions or delays in our solutions or Web hosting negatively impacts our business and sales;*
- *the risks associated with cyberattacks, financial transaction fraud, data and privacy breaches and breaches of security measures within our products, systems and infrastructure or the products, systems and infrastructure of third parties upon which we rely and the resultant costs and liabilities and harm to our business and reputation and our ability to sell our solutions;*

- *the difficulties and risks associated with developing and selling complex new solutions and enhancements, including those using artificial intelligence, or AI, with the technical and regulatory specifications and functionality required by our customers and relevant governmental authorities;*
- *regulatory risks associated with operating within and selling into a regulated industry, including risks related to evolving regulation of AI and machine learning, and the receipt, collection, storage, processing and transfer of data; data and increased regulatory scrutiny in financial technology, including specifically on banking-as-a-service, or BaaS, services;*
- *the risks associated with our sales and marketing capabilities, including partner relationships and the length, cost and unpredictability of our sales cycle;*
- *the risks inherent in third-party technology and implementation partnerships that could cause harm to our business;*
- *the risk that we will not be able to maintain historical contract terms such as pricing and duration;*
- *the general risks associated with the complexity of our customer arrangements and our solutions;*
- *the risks associated with integrating acquired companies and successfully selling and maintaining their solutions;*
- *litigation related to intellectual property and other matters and any related claims, negotiations and settlements;*
- *the risks associated with further consolidation in the financial services industry;*
- *the risks associated with selling our solutions internationally and with the continued expansion of our international operations;*
- *the risk that our debt repayment obligations may adversely affect our financial condition and that we may not be able to obtain capital when desired or needed on favorable terms; and*
- *such other risks and uncertainties described more fully in documents filed with or furnished to the Securities and Exchange Commission, or the SEC, including the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 21, 2024.*

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
	(unaudited)			
Assets				
Assets				
Assets				
Current assets:	Current assets:		Current assets:	
Cash and cash equivalents				
Restricted cash				
Investments				
Accounts receivable, net				
Contract assets, current portion, net				
Prepaid expenses and other current assets				
Deferred solution and other costs, current portion				
Deferred implementation costs, current portion				
Total current assets				
Property and equipment, net				
Right of use assets				
Deferred solution and other costs, net of current portion				
Deferred implementation costs, net of current portion				
Intangible assets, net				
Goodwill				
Contract assets, net of current portion and allowance				
Other long-term assets				
Total assets				
Liabilities and stockholders' equity	**Liabilities and stockholders' equity**		**Liabilities and stockholders' equity**	
Current liabilities:	Current liabilities:		Current liabilities:	
Accounts payable				
Accrued liabilities				
Accrued compensation				
Deferred revenues, current portion				
Deferred revenues, current portion				
Deferred revenues, current portion				
Lease liabilities, current portion				
Total current liabilities				

Convertible notes, net of current portion		
Deferred revenues, net of current portion		
Lease liabilities, net of current portion		
Other long-term liabilities		
Total liabilities		
Commitments and contingencies (Note 8)	Commitments and contingencies (Note 8)	Commitments and contingencies (Note 8)
Stockholders' equity:		
Preferred stock: $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding as of March 31, 2024 and December 31, 2023		
Preferred stock: $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding as of March 31, 2024 and December 31, 2023		
Preferred stock: $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding as of March 31, 2024 and December 31, 2023		
Common stock: $0.0001 par value; 150,000 shares authorized, 60,099 issued and outstanding as of March 31, 2024 and 59,031 shares issued and outstanding as of December 31, 2023		
Preferred stock: $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding as of June 30, 2024 and December 31, 2023		
Preferred stock: $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding as of June 30, 2024 and December 31, 2023		
Preferred stock: $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding as of June 30, 2024 and December 31, 2023		
Common stock: $0.0001 par value; 150,000 shares authorized, 60,283 issued and outstanding as of June 30, 2024 and 59,031 shares issued and outstanding as of December 31, 2023		
Additional paid-in capital		
Additional paid-in capital		
Additional paid-in capital		
Accumulated other comprehensive loss		
Accumulated deficit		
Total stockholders' equity		
Total liabilities and stockholders' equity		

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Revenues				

Revenues
Revenues
Cost of revenues
Cost of revenues
Cost of revenues
Gross profit
Gross profit
Gross profit
Operating expenses:
Operating expenses:
Operating expenses:
Sales and marketing
Sales and marketing
Sales and marketing
Research and development
Research and development
Research and development
General and administrative
General and administrative
General and administrative
Transaction-related costs
Transaction-related costs
Transaction-related costs
Amortization of acquired intangibles
Amortization of acquired intangibles
Amortization of acquired intangibles
Lease and other restructuring charges
Lease and other restructuring charges
Lease and other restructuring charges
Total operating expenses
Total operating expenses
Total operating expenses
Loss from operations
Loss from operations
Loss from operations
Other income (expense):
Other income (expense):
Other income (expense):
Interest and other income

Interest and other income
Interest and other income
Interest and other expense
Interest and other expense
Interest and other expense
Gain on extinguishment of debt
Gain on extinguishment of debt
Gain on extinguishment of debt
Total other income (expense), net
Total other income (expense), net
Total other income (expense), net
Loss before income taxes
Loss before income taxes
Loss before income taxes
Provision for income taxes
Provision for income taxes
Provision for income taxes
Net loss
Net loss
Net loss
Other comprehensive income (loss):
Other comprehensive income (loss):
Other comprehensive income (loss):
Unrealized gain (loss) on available-for-sale investments
Unrealized gain (loss) on available-for-sale investments
Unrealized gain (loss) on available-for-sale investments
Foreign currency translation adjustment
Foreign currency translation adjustment
Foreign currency translation adjustment
Comprehensive income (loss)
Comprehensive income (loss)
Comprehensive income (loss)
Comprehensive loss
Net loss per common share, basic and diluted
Net loss per common share, basic and diluted
Net loss per common share, basic and diluted
Weighted average common shares outstanding, basic and diluted
Weighted average common shares outstanding, basic and diluted
Weighted average common shares outstanding, basic and diluted

Basic and diluted
Basic and diluted
Basic and diluted

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

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

		Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2024	2023	2024	2023
	2024				
	2024				
Total stockholders' equity, beginning balances					
Total stockholders' equity, beginning balances					
Total stockholders' equity, beginning balances					
Common stock and additional paid-in capital:					
Common stock and additional paid-in capital:					
Common stock and additional paid-in capital:					
Beginning balances					
Beginning balances					
Beginning balances					
Stock-based compensation expense					
Stock-based compensation expense					
Stock-based compensation expense					
Exercise of stock options					
Exercise of stock options					
Exercise of stock options					
Issuance of common stock under ESPP					
Settlement of capped calls					
Settlement of capped calls					
Settlement of capped calls					
Ending balances					
Ending balances					
Ending balances					
Accumulated deficit:					
Accumulated deficit:					

Accumulated deficit:
Beginning balances
Beginning balances
Beginning balances
Net loss
Net loss
Net loss
Ending balances
Ending balances
Ending balances
Accumulated other comprehensive income (loss):
Accumulated other comprehensive income (loss):
Accumulated other comprehensive income (loss):
Beginning balances
Beginning balances
Beginning balances
Other comprehensive income (loss)
Other comprehensive income (loss)
Other comprehensive income (loss)
Ending balances
Ending balances
Ending balances
Total stockholders' equity, ending balances
Total stockholders' equity, ending balances
Total stockholders' equity, ending balances
Common stock (in shares):
Common stock (in shares):
Common stock (in shares):
Beginning balances
Beginning balances
Beginning balances
Exercise of stock options
Exercise of stock options
Exercise of stock options
Shares issued for the vesting of restricted stock awards
Shares issued for the vesting of restricted stock awards
Issuance of common stock under ESPP
Shares issued for the vesting of restricted stock awards
Ending balances

Ending balances

Ending balances

Ending balances

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

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

		Three Months Ended March 31,		Six Months Ended June 30,	
		2024	2023	2024	2023
Cash flows from operating activities:	**Cash flows from operating activities:**		**Cash flows from operating activities:**		
Net loss					
Adjustments to reconcile net loss to net cash from operating activities:					
Amortization of deferred implementation, solution and other costs					
Amortization of deferred implementation, solution and other costs					
Amortization of deferred implementation, solution and other costs					
Depreciation and amortization					
Amortization of debt issuance costs					
Amortization of premiums and discounts on investments					
Amortization of premiums and discounts on investments					
Amortization of premiums and discounts on investments					
Stock-based compensation expense					
Deferred income taxes					
Gain on extinguishment of debt					
Lease impairments					
Lease impairments					
Lease impairments					
Other non-cash items					
Changes in operating assets and liabilities:					
Accounts receivable, net					
Accounts receivable, net					
Accounts receivable, net					
Prepaid expenses and other current assets					

Deferred solution and other costs		
Deferred implementation costs		
Contract assets, net		
Other long-term assets		
Accounts payable		
Accrued liabilities		
Deferred revenues		
Deferred revenues		
Deferred revenues		
Deferred rent and other long-term liabilities		
Net cash provided by operating activities		
Cash flows from investing activities:	**Cash flows from investing activities:**	**Cash flows from investing activities:**
Purchases of investments		
Maturities of investments		
Purchases of property and equipment		
Capitalized software development costs		
Capitalized software development costs		
Capitalized software development costs		
Net cash provided by investing activities		
Net cash provided by investing activities		
Net cash provided by investing activities		
Cash flows from financing activities:	**Cash flows from financing activities:**	**Cash flows from financing activities:**
Payment for maturity of 2023 convertible notes		
Payment for maturity of 2023 convertible notes		
Payment for maturity of 2023 convertible notes		
Payment for repurchases of convertible notes		
Proceeds from capped calls related to convertible notes		
Proceeds from the exercise of stock options and ESPP		
Proceeds from the exercise of stock options and ESPP		
Proceeds from the exercise of stock options and ESPP		
Net cash provided by (used in) financing activities		
Net cash provided by (used in) financing activities		
Net cash provided by (used in) financing activities		
Effect of exchange rate changes on cash, cash equivalents and restricted cash		
Net increase (decrease) in cash, cash equivalents and restricted cash		

Cash, cash equivalents and restricted cash, beginning of period
Cash, cash equivalents and restricted cash, end of period
Supplemental disclosure of non-cash investing and financing activities:
Property and equipment acquired and included in accounts payable and accrued liabilities
Property and equipment acquired and included in accounts payable and accrued liabilities
Property and equipment acquired and included in accounts payable and accrued liabilities
Stock-based compensation for capitalized software development
Stock-based compensation for capitalized software development
Stock-based compensation for capitalized software development
Capitalized software development costs included in accounts payable and accrued liabilities

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

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

1. Organization and Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

In the Company's opinion, the interim unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation. Certain information and disclosures normally included in the notes to the annual consolidated financial statements prepared in accordance with GAAP have been omitted from these interim unaudited condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2023, which are included in the Company's Annual Report on Form 10-K, filed with the SEC on February 21, 2024. The results of operations for the three and six months ended March 31, 2024 June 30, 2024 are not necessarily indicative of the results to be expected for the year ending December 31, 2024 or for any other period.

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

Use of Estimates

The preparation of the interim unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the interim unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses. Significant items subject to such estimates include: revenue recognition; estimate of credit losses; fair value of certain stock awards issued; the carrying value of goodwill; the fair value of acquired intangibles; the useful lives of property and equipment and long-lived intangible assets; the impairment assessment of long-lived assets; 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.

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, accounts receivable and contract assets. The Company's cash and cash equivalents, restricted cash and investments are placed with high credit quality financial institutions and issuers, and at times may exceed federally insured limits. The Company has not experienced any loss relating to cash and cash equivalents or restricted cash in these accounts. The Company provides credit, in the normal course of business, to a majority of its customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. No individual customer accounted for 10% or more of revenues for each of the three and six months ended March 31, 2024 June 30, 2024 and 2023. No customer accounted for 10% or more of accounts receivable, net as of March 31, 2024 June 30, 2024 and December 31, 2023.

Summary of Significant Accounting Policies

There were no material changes to our significant accounting policies during the three six months ended March 31, 2024 June 30, 2024 compared to the significant accounting policies described in our Form 10-K.

Basic and Diluted Net Loss per Common Share

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2024	**2023**	**2024**	**2023**
Numerator:	Numerator:				
Numerator:					
Numerator:					

Net loss

Net loss

Net loss

Denominator:	Denominator:			

Denominator:

Denominator:

Weighted-average common shares outstanding, basic and diluted

Weighted-average common shares outstanding, basic and diluted

Weighted-average common shares outstanding, basic and diluted

Net loss per common share, basic and diluted

Net loss per common share, basic and diluted

Net loss per common share, basic and diluted

Due to net losses for the three and six months ended March 31, 2024 June 30, 2024 and 2023, basic and diluted loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive. The dilutive impact of the convertible senior notes was calculated using the if-converted method. The following table sets forth the anti-dilutive common share equivalents for the periods listed:

		As of March 31,			As of June 30,	
		2024	**2023**		**2024**	**2023**
Stock options, restricted stock units, market stock units and performance stock units	Stock options, restricted stock units, market stock units and performance stock units	5,341	5,374	Stock options, restricted stock units, market stock units and performance stock units	5,296	5,342
Shares issuable pursuant to the ESPP	Shares issuable pursuant to the ESPP	70	127	Shares issuable pursuant to the ESPP	68	124
Shares related to convertible notes	Shares related to convertible notes	4,794	5,798	Shares related to convertible notes	4,794	5,296
	10,205					
	10,158					

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standard Board, or FASB, issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses and information used to assess segment performance. The ASU is effective for fiscal years beginning after December 15, 2023 on a retrospective basis, and for interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvement to Income Tax Disclosures" which requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The ASU is effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

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

3. Revenue

Revenue Recognition

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

Disaggregation of Revenue

Revenue-generating activities are directly related to the sale, implementation and support of the Company's solutions within a single operating segment. The Company derives the majority of its revenues from subscription fees for the use of its solutions hosted in either the Company's data centers or with cloud-based service providers, transactional revenue from bill-pay solutions, revenues for professional services and implementation services related to the Company's solutions and certain third-party related pass-through fees.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Subscription				
Subscription				
Subscription				
Transactional				
Transactional				
Transactional				
Services and Other				
Services and Other				
Services and Other				
Total Revenues				
Total Revenues				
Total Revenues				

Deferred Revenues

The net increase in the deferred revenue balance for the three six months ended March 31, 2024 June 30, 2024 was primarily driven by the amounts due from customers in advance of satisfying the Company's performance obligations of $189.8 million $362.4

million for current year invoices, partially offset by the recognition of $111.4 million $248.3 million of revenue recognized from current year invoices, $54.1 million $90.1 million of revenue that was included in the deferred revenue balance as of December 31, 2023 and $1.1 million $1.4 million from the netting of contract assets and liabilities on a contract-by-contract basis. Amounts recognized from deferred revenues represent primarily revenue from the sale of subscription and implementation services.

Remaining Performance Obligations

On March 31, 2024 June 30, 2024, the Company had $1.92 billion $1.96 billion of remaining performance obligations, which represents contracted revenue minimums that have not yet been recognized, including amounts that will be invoiced and recognized as revenue in future periods. The Company expects to recognize approximately 52% 53% of its remaining performance obligations as revenue in the next 24 months, an additional 31% 32% in the next 25 to 48 months, and the balance thereafter.

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

Allowance for Credit Losses

The Company is exposed to credit losses primarily through sales of products and services. The Company assesses the collectability of outstanding contract assets on an ongoing basis and maintains a reserve which is included in the allowance for credit losses for contract assets deemed uncollectible. The Company analyzes the contract assets portfolio for significant risks by considering historical collection experience and forecasting future collectability to determine the amount of revenues that will ultimately be collected from its customers. Customer type (whether a customer is a financial institution or other digital solution provider) has been identified as the primary specific risk affecting the Company's contract assets, and the estimate for losses is analyzed quarterly and adjusted as necessary. Future collectability may be impacted by current and anticipated macroeconomic conditions that could impact the Company's customers. Additionally, specific allowance amounts may be established to record the appropriate provision for customers that have a higher probability of default. The No amounts were provisioned by the Company has provisioned zero for expected losses for both either of the three six months ended March 31, 2024 June 30, 2024 or 2023, and 2023, of which zero has been written off and charged no charges were taken against the allowance at both March 31, 2024 and either June 30, 2024 or 2023. The allowance for credit losses related to contract assets was $0.03 million at both March 31, 2024 June 30, 2024 and December 31, 2023.

The Company assesses the collectability of outstanding accounts receivable on an ongoing basis and maintains an allowance for credit losses for accounts receivable deemed uncollectible. The Company analyzes the accounts receivable portfolio for significant risks and considers prior periods and forecasts future collectability to determine the amount of revenues that will ultimately be collected from its customers. This estimate is analyzed quarterly and adjusted as necessary. Identified risks pertaining to the Company's accounts receivable include the delinquency level and customer type. Future collectability may be impacted by current and anticipated macroeconomic conditions that could impact the Company's customers. Due to the short-term nature of such receivables, the estimate of the amount of accounts receivable that may not be collected is based on aging of the accounts receivable balances and the financial condition of customers. Historically, the Company's collection experience has not varied significantly, and bad debt expenses have been insignificant. The No amounts were provisioned by the Company has provisioned zero for expected losses for both either of the three six months ended March 31, 2024 June 30, 2024 or 2023, and 2023, of which zero has been written off and charged no charges were taken against the allowance at both March 31, 2024 and either June 30, 2024 or 2023. During the six months ended June 30, 2024, the Company decreased the allowance by less than $0.1 million. The allowance for credit losses related to accounts receivable was $0.5 million $0.4 million and $0.5 million at both March 31, 2024 June 30, 2024 and December 31, 2023. , respectively.

4. Fair Value Measurements

The carrying values of the Company's financial assets not measured at fair value on a recurring basis, principally accounts receivable, restricted cash and accounts payable, approximated their fair values due to the short period of time to maturity or repayment.

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

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

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

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The following table details the fair value hierarchy of the Company's financial assets measured at fair value on a recurring basis as of March 31, 2024 June 30, 2024:

			Fair Value Measurements Using:						
	Fair Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Assets									
Cash Equivalents:									
Cash Equivalents:									
Cash Equivalents:									
Money market funds									
Money market funds									

Money market funds	
U.S. government securities	
U.S. government securities	
U.S. government securities	
	$

Investments:

Investments:

Investments:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Corporate bonds and commercial paper								
Certificates of deposit								
U.S. government securities								
	$							

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, 2023:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Assets				
Cash Equivalents:				

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

Money market funds	$ 86,611	$ 86,611	$ —	$ —

Investments:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Corporate bonds and commercial paper	$ 31,852	$ —	$ 31,852	$ —
Certificates of deposit	9,321	—	9,321	—
U.S. government securities	53,055	—	53,055	—
	$ 94,228	$ —	$ 94,228	$ —

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

5. Cash, Cash Equivalents and Investments

The Company's cash, cash equivalents and investments as of March 31, 2024 June 30, 2024 and December 31, 2023 consisted primarily of cash, U.S. government securities, corporate bonds, commercial paper, certificates of deposit, money market funds and other equity investments. The Company considers all highly liquid investments acquired with an original maturity of ninety days or less at the date of purchase to be Investments. cash equivalents. Cash equivalents are stated at cost or fair value based on the underlying security. Restricted cash consists of deposits held as collateral for the Company's secured letters of credit or bank guarantees issued in place of security deposits for the Company's corporate headquarters and various other leases, deposits held by the Company on behalf of its medical insurance carrier reserved for the use of claim payments, and deposits that are restricted to withdrawal or use as of the reporting date under the contractual terms of certain customer arrangements.

The Company classifies its debt investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All debt investments are recorded at estimated fair value. Unrealized gains and losses on available-for-sale investments are included in accumulated other comprehensive income (loss), a component of stockholders' equity. If the Company does not expect to recover the entire amortized cost basis of the available-for-sale debt security, it considers the available-for-sale debt security to be impaired. For individual debt securities classified as available-for-sale and deemed impaired, the Company assesses whether such decline has resulted from a credit loss or other factors. Impairment relating to credit losses is recorded through a reserve, limited to the amount that the fair value is less than the amortized cost basis. Impairment is reported in other income (expense), net on the condensed consolidated statements of comprehensive income (loss). loss. Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net on the condensed consolidated statements of comprehensive income (loss). loss. Interest, amortization of premiums and accretion of discount on all debt investments classified as available-for-sale are also included as a component of other income (expense), net on the condensed consolidated statements of comprehensive income (loss). loss. Based on the Company's assessment, no impairments for credit losses were recognized during either of the three months ended March 31, 2024 June 30, 2024 or 2023.

The Company has invested in a private financial technology investment fund, classified as an equity investment. Equity investments without a readily determinable fair value, where the Company has no influence over the operating and financial policies of the investee, are recorded at cost, less impairment and adjusted for subsequent observable price changes obtained from orderly transactions for identical or similar investments issued by the same investee. An impairment charge to current earnings is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary. During the year ended December 31, 2023, the Company determined there was a $0.1 million other-than-temporary impairment on its equity investment. This equity investment had a carrying amount of $0.2 million $0.3 million and $0.1 million as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively.

As of March 31, 2024 June 30, 2024 and December 31, 2023, the Company's cash was $155.1 million $223.7 million and $143.0 million, respectively.

A summary of the Company's cash equivalents and investments that are carried at fair value as of March 31, 2024 June 30, 2024 is as follows:

Cash Equivalents:	**Cash Equivalents:**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Cash Equivalents:**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Money market funds										
U.S. government securities										
U.S. government securities										
U.S. government securities										
		— $								
Investments:										
Investments:										

Investments:		**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**		**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Corporate bonds and commercial paper										
Certificates of deposit										
U.S. government securities										
		— $ =								

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A summary of the Company's cash equivalents and investments that are carried at fair value as of December 31, 2023 is as follows:

Cash Equivalents:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 86,611	$ —	$ —	$ 86,611

Investments:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and commercial paper	$ 31,979	$ 3	$ (130)	$ 31,852
Certificates of deposit	9,337	—	(16)	9,321
U.S. government securities	53,208	—	(153)	53,055
	$ 94,524	$ 3	$ (299)	$ 94,228

Investments may be sold or may settle 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 on the condensed consolidated balance sheets.

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

	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
Due within one year or less				
Due after one year through two years				
	$			

The Company has certain available-for-sale debt investments in a gross unrealized loss position. The Company regularly reviews its debt investments for impairment resulting from credit loss using both qualitative and quantitative criteria, as necessary, based on the composition of the portfolio at period end. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer or whether the Company has the intent to or it is more likely than not it will be required to sell the investments before recovery of the investments' amortized-cost basis. If the Company determines that impairment exists in one of these investments, the respective investments would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized in other income, net on the condensed consolidated statements of comprehensive income (loss) loss if the intent of the Company was to sell the investments before recovery. Any portion not related to credit loss would be included in accumulated other comprehensive loss in the condensed consolidated statements of comprehensive income (loss). loss. Because the Company does not intend to sell any investments which have an unrealized loss position at this time, and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the reserve for available-for-sale debt securities was zero as of March 31, 2024 June 30, 2024 and December 31, 2023.

The following table presents the fair values and the gross unrealized losses of these available-for-sale debt investments as of March 31, 2024 June 30, 2024, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	Less than 12 months		Less than 12 months	12 months or greater	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper								

Certificates of deposit	
U.S. government securities	
	$

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The following table presents the fair values and the gross unrealized losses of these available-for-sale debt investments as of December 31, 2023, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	Less than 12 months		12 months or greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper	$ 12,060	$ (39)	$ 18,525	$ (91)
Certificates of deposit	1,999	(5)	2,215	(11)
U.S. government securities	18,140	(42)	32,421	(111)
	$ 32,199	$ (86)	$ 53,161	$ (213)

6. Goodwill and Intangible Assets

The carrying amount of goodwill was $512.9 million at both March 31, 2024 June 30, 2024 and December 31, 2023. Goodwill represents the excess purchase price over the fair value of net assets acquired. The annual impairment test was performed as of October 31, 2023. No impairment of goodwill was identified during 2023, nor has any impairment of goodwill been identified during the three six months ended March 31, 2024 June 30, 2024.

Intangible assets at March 31, 2024 June 30, 2024 and December 31, 2023 were as follows:

		As of March 31, 2024			As of December 31, 2023								
		As of June 30, 2024			As of December 31, 2023								
	Gross Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships													
Non-compete agreements													
Trademarks													

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

Acquired technology	
Capitalized software development costs	
Capitalized software development costs	
Capitalized software development costs	
	$

The Company recorded intangible assets from various prior business combinations as well as capitalized software development costs. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from three to seven years. Amortization expense included in cost of revenues on the condensed consolidated statements of comprehensive income (loss) loss was $8.3 $8.6 million and $7.3 $7.6 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and $17.0 million and $14.9 million for the six months ended June 30, 2024 and 2023, respectively. Amortization expense included in operating expenses on the condensed consolidated statements of comprehensive income (loss) loss was $4.8 million and $5.3 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and $9.6 million and $10.5 million for the six months ended June 30, 2024 and 2023, respectively.

The estimated future amortization expense related to intangible assets as of March 31, 2024 June 30, 2024 was as follows:

	Amortization
Year Ended December 31,	
2024 (April 1 to December 31)	
2024 (April 1 to December 31)	
2024 (April 1 to December 31)	
2024 (July 1 to December 31)	
2024 (July 1 to December 31)	
2024 (July 1 to December 31)	
2025	
2026	
2027	
2028	
Thereafter	
Total amortization	

7. Leases

The Company leases office space under non-cancellable operating leases for its corporate headquarters in Austin, Texas in two adjacent buildings under separate lease agreements. Pursuant to the first of which the Company leases office space with an initial term that expires on April 30, 2028, with the option to extend the lease for an additional ten-year term. Pursuant to the second of which the Company leases office space with lease terms of approximately ten years, with options to extend the leases on the second building from five to ten years. The Company also leases office space in other U.S. cities located in Nebraska, Iowa, North Carolina, and Minnesota. Internationally, the Company leases offices in India, Australia and the United Kingdom. The Company believes its current facilities will be adequate for its needs for the foreseeable future.

Maturities of the Company's operating lease liabilities for lease terms in excess of one year at March 31, 2024 June 30, 2024 were as follows:

	Operating Leases
Year Ended December 31,	
2024 (April 1 to December 31)	
2024 (April 1 to December 31)	
2024 (April 1 to December 31)	
2024 (July 1 to December 31)	
2024 (July 1 to December 31)	
2024 (July 1 to December 31)	
2025	
2026	
2027	
2028	
Thereafter	
Total lease payments	
Less: imputed interest	
Total operating lease liabilities	

The operating lease liabilities include $14.0 million in optional lease renewals where the Company is reasonably certain of exercising those options.

The Company has exited and made available for sublease certain leased office spaces, and updated assessments of previously exited leased office spaces. As a result, the Company evaluated the recoverability of its right of use and other lease related assets and determined that their carrying values were not fully recoverable. The Company calculated the impairment by comparing the carrying amount of the asset group to its estimated fair value using a discounted cash flow model. As of December 31, 2023, an impairment of $1.9 million was recorded to right of use assets, $0.2 million was recorded to property and equipment and an additional $0.3 million was recorded to accrued liabilities and other long-term liabilities for expected expenses and fees associated with exiting the leased office space. These charges were recorded within operating expenses on the condensed consolidated statements of comprehensive income (loss). loss. During the three and six months ended March 31, 2024 June 30, 2024, no impairment charges related to right of use or other lease related assets were recorded.

8. Commitments and Contingencies

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

The Company has non-cancelable contractual commitments related to the 2026 Notes and the 2025 Notes (each as defined below) as well as the related interest. The interest on the 2026 Notes is payable semi-annually on June 1 and December 1 of each year. The interest on the 2025 Notes is payable semi-annually on May 15 and November 15 of each year. The Company also has non-cancelable contractual commitments for certain third-party products, stadium sponsorship costs, co-location and hosting fees and other product costs. Several of these purchase commitments for third-party products contain both a contractual minimum obligation and a variable obligation based upon usage or other factors which can change on a monthly basis. The estimated amounts for usage and other factors are not included within the table below.

Future minimum contractual commitments that have initial or remaining non-cancelable terms in excess of one year at March 31, 2024 June 30, 2024 were as follows:

	Contractual Commitments
Year Ended December 31,	
2024 (April 1 to December 31)	
2024 (April 1 to December 31)	
2024 (April 1 to December 31)	
2024 (July 1 to December 31)	
2024 (July 1 to December 31)	
2024 (July 1 to December 31)	
2025	
2026	
2027	
2028	
Thereafter	
Total commitments	

Legal Proceedings

From time to time, the Company is 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.

Gain Contingencies

From time to time the Company may realize a gain contingency, however, recognition will not occur until cash is received.

Loss Contingencies

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

9. Convertible Senior Notes

The following table presents details of the Company's convertible senior notes outstanding as of March 31, 2024 June 30, 2024, which are further discussed below (principal in thousands):

	Date Issued	Maturity Date (1)	Principal	Interest Rate per Annum	Conversion Rate for Each $1,000 Principal (2)	Initial Conversion Price per Share
2026 Notes	June 1, 2019	June 1, 2026	$ 303,995	0.75 %	$ 11.2851	$ 88.61
2025 Notes	November 15, 2020	November 15, 2025	$ 191,000	0.125 %	$ 7.1355	$ 140.14

(1) Unless earlier converted or repurchased in accordance with their terms prior to such date

(2) Subject to adjustment upon the occurrence of certain specified events

As further defined and described below, the 2026 Notes and the 2025 Notes are collectively referred to as the Notes.

In June 2019, the Company issued $316.3 million principal amount of convertible senior notes due in June 2026, or the 2026 Notes. Interest is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2019.

In November 2020, the Company issued $350.0 million principal amount of convertible senior notes due in November 2025, or the 2025 Notes. Interest is payable semi-annually on May 15 and November 15 of each year, commencing on May 15, 2021.

In March 2023, the Company repurchased $12.3 million in aggregate principal amount of the 2026 Notes for $10.7 million in cash and repurchased $159.0 million in aggregate principal amount of the 2025 Notes for $138.4 million in cash. The partial repurchase repurchases of the 2026 Notes and 2025 Notes resulted in a $19.9 million gain on early debt extinguishment, of which $1.8 million consisted of unamortized debt issuance costs. This gain was recorded within other income (expense) on the condensed consolidated statements of comprehensive income (loss). loss. The Company may repurchase additional 2025 Notes and/or 2026 Notes from time to time through open market purchases, block trades, and/or privately negotiated transactions, in compliance with applicable securities laws and other legal requirements. The timing, volume, and nature of the repurchases will be determined by the Company based on the capital needs of the business, market conditions, applicable legal requirements, and other factors.

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

On or after June 5, 2023 or November 20, 2023 for the 2026 Notes and 2025 Notes, respectively, the Company may redeem for cash all or any portion of the Notes, at the Company's option, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price in effect for at least 20 trading days (whether or not consecutive) during any 30-consecutive trading-day period. If the Company calls any or all of the Notes for redemption, holders may convert all or any portion of their Notes at any time prior to the close of business on the scheduled trading day prior to the redemption date, even if the Notes are not otherwise convertible at such time. After that time, the right to convert such Notes will expire, unless the Company defaults in the payment of the redemption price, in which case a holder of the Notes may convert all or any portion of its Notes until the redemption price has been paid or duly provided for.

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

On or after March 1, 2026 or August 15, 2025 for the 2026 Notes and 2025 Notes, respectively, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the succeeding conditions described herein. Upon conversion, the Company will pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at its election, as described in the indentures governing the Notes.

Holders may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding March 1, 2026 or August 15, 2025 for the 2026 Notes and 2025 Notes, respectively, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on September 30, 2019 or March 30, 2021 (and only during such calendar quarter), for the 2026 Notes and 2025 Notes, respectively, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five consecutive business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or

- upon the occurrence of specified corporate events.

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

As of March 31, 2024 June 30, 2024, the 2026 Notes and 2025 Notes were not convertible.

The Notes consist of the following:

		As of March 31, 2024		**As of December 31, 2023**					
		As of June 30, 2024		**As of December 31, 2023**					
	2026 Notes	**2026 Notes**	**2025 Notes**	**2026 Notes**	**2025 Notes**	**2026 Notes**	**2025 Notes**	**2026 Notes**	**2025 Notes**
Principal									
Unamortized debt issuance costs									
Net carrying amount									

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

	Three Months Ended March 31,
	Three Months Ended March 31,

	Three Months Ended March 31,				
	2024				
	2024				
		Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2024	2023	2024	2023
Contractual interest expense					
Contractual interest expense					
Contractual interest expense					
Amortization of debt issuance costs					
Amortization of debt issuance costs					
Amortization of debt issuance costs					
Total					
Total					
Total					

Debt issuance costs are amortized on a straight-line basis, which approximates the effective interest method, to interest expense over the expected life of the Notes. As of March 31, 2024 June 30, 2024, the remaining period over which the debt issuance costs will be amortized for the 2026 Notes and 2025 Notes was 2.2 1.9 years and 1.6 1.4 years, respectively.

As of March 31, 2024 June 30, 2024, the if-converted value of the Notes did not exceed the principal amount. The if-converted values were determined based on the closing price of the Company's stock on March 31, 2024 June 30, 2024.

Capped Call Transactions

In connection with the issuance of the Notes, the Company entered into two separate capped call transactions with one or more counterparties, or the Capped Calls. The Capped Calls associated with the 2026 Notes have an initial strike price of $88.6124 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2026 Notes. The Capped Calls associated with the 2025 Notes have an initial strike price of $140.1443 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2025 Notes. The Capped Calls associated with the 2026 Notes have an initial cap price of $139.00 per share. The Capped Calls associated with the 2025 Notes have an initial cap price of $211.54 per share. The Capped Calls are expected to offset the potential dilution to the common stock upon any conversion of the Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the Notes in the event the market price per share of common stock is greater than the strike price of the Capped Call, with such offset subject to a cap. If, however, the market price per share of the common stock exceeds the cap price of the Capped Calls, there would be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that the then-market price per share of the common stock exceeds the cap price. As the Capped Calls are considered indexed to the Company's stock and are considered equity classified, they are recorded in stockholders' equity on the condensed consolidated balance sheet and are not accounted for as derivatives. The cost of $40.8 million incurred in connection with the Capped Calls associated with the 2026 Notes was recorded as a reduction to additional paid-in capital. The cost of $39.8 million incurred in connection with the Capped Calls associated with the 2025 Notes was recorded as a reduction to common stock.

In March 2023, in connection with the partial repurchase of the Notes, the Company terminated the Capped Calls in a notional amount corresponding to the aggregate principal amount of the Notes that were repurchased. As a result of the termination of the related Capped Calls, the Company received cash payments of $0.1 million. The proceeds were recorded as an increase to additional paid-in capital on the condensed consolidated balance sheets.

10. Stock-Based Compensation

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

In March 2014, the Company's board of directors approved the 2014 Equity Incentive Plan, or 2014 Plan. The 2014 Plan terminated on June 1, 2023, except with respect to the outstanding awards previously granted thereunder. As of June 1, 2023, there were 7,606 shares of common stock that were reserved for issuance pursuant to outstanding awards, assuming maximum performance, under the 2014 Plan.

In May 2023, the Company's stockholders approved the 2023 Equity Incentive Plan, or 2023 Plan, with an effective date of June 1, 2023, 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. At time of approval, up to 14,045 shares of common stock were reserved for issuance under the 2023 Plan, all of which consisted of shares previously reserved for issuance under the 2014 Plan and any shares that would otherwise be returned to the 2014 Plan as a result of the forfeiture, repurchase or termination of awards issued under that plan. The 2023 Plan is a successor to and continuation of the Company’s 2014 Plan. As of March 31, 2024 June 30, 2024, 5,796 5,751 shares remain authorized and available for future issuance under the 2023 Plan, assuming attainment of maximum performance for any market stock units or performance stock units.

In March 2014, the Company adopted its Employee Stock Purchase Plan, or ESPP. The plan was implemented starting January 3, 2022, pursuant to which certain participating domestic employees are able to purchase shares of the Company's common stock at a 15% discount of the lower of the market price at the beginning or end of the offering period. Offering periods commence on each June 1 and December 1. The Board provided for a share reserve with respect to the ESPP of 800 shares. The ESPP contains a provision that automatically increases the shares available for issuance under the plan on January 1 of each year through 2024, by an amount equal to the lesser of (a) 500 shares, (b) 1% of the number of shares issued and outstanding on the immediately preceding December 31, or (c) such other amount as may be determined by the Company's board of directors. As During the three months ended June 30, 2024, the Company issued 95 shares and as of March 31, 2024 June 30, 2024, 1,374 1,279 shares remain authorized and available for future issuance under the ESPP.

Stock-based compensation expense was recorded in the following cost and expense categories on the Company's condensed consolidated statements of comprehensive income (loss): loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cost of revenues				
Cost of revenues				
Cost of revenues				
Sales and marketing				
Sales and marketing				
Sales and marketing				
Research and development				
Research and development				
Research and development				
General and administrative				

General and administrative
General and administrative
Total stock-based compensation expense
Total stock-based compensation expense
Total stock-based compensation expense

11. Income Taxes

In accordance with applicable accounting guidance, the income tax expense for the three six months ended March 31, 2024 June 30, 2024 is based on the estimated annual effective tax rate for fiscal year 2024. The Company's provision for income taxes is based on estimated effective tax rates derived from an estimate of annual consolidated earnings before taxes, adjusted for nondeductible expenses, other permanent items, valuation allowances, and any applicable income tax credits.

The Company's provision for income taxes reflected an effective tax rate of approximately (12.7) (19.0)% and (3.6) (2.1)% for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively. respectively and (15.7)% and (2.1)% for the six months ended June 30, 2024 and 2023. For the three and six months ended March 31, 2024 June 30, 2024 and 2023, the Company's effective tax rate was lower than the U.S. federal statutory rate primarily due to its valuation allowance offsetting the benefits of losses. The Company's income tax expenses and benefits consist primarily of state current income tax expense, deferred income tax expense relating to the tax amortization of previously acquired goodwill and current income tax expense from foreign operations.

To date, the Company has provided a valuation allowance against most of its deferred tax assets as it believes the objective and verifiable evidence of its historical pretax net losses outweighs any positive evidence of its forecasted future results. 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.

As of March 31, 2024 June 30, 2024, the Company had $0.7 million in uncertain tax positions, including an insignificant amount of accrued interest, representing no change from the balance at December 31, 2023. The Company's tax years 2020 through 2023 generally remain open to examination by the major taxing jurisdictions to which the Company is subject. Operating losses generated in years prior to 2020 remain open to adjustment until the statute of limitations closes for the tax year in which the net operating losses are utilized.

12. Subsequent Events

On July 29, 2024, the Company entered into a five-year secured revolving credit agreement, or Revolving Credit Agreement, with bank lenders providing for a revolving line of credit of up to $125.0 million. Q2 Software, Inc., a wholly owned subsidiary of the Company, guarantees all of the obligations under the Revolving Credit Agreement, which are also secured by a first priority security interest in substantially all of the assets of the Company and Q2 Software, Inc. Borrowings under the Revolving Credit Agreement may, at the Company's election, bear interest quarterly at either (a) the base rate plus the applicable margin, or Base Rate Loans, or (b) the adjusted term secured overnight financing rate, or SOFR, plus the applicable margin, or Adjusted Term SOFR Loans. The applicable margin ranges from 0.75% to 1.50% per annum for Base Rate Loans and 1.75% to 2.50% per annum for Adjusted Term SOFR loans. A commitment fee accrues at a rate ranging from 0.15% to 0.30% per annum, based on the Company's consolidated total net leverage ratio, of the average daily unused portion of the commitment of the lenders. As of July 31, 2024, there were no borrowings outstanding under the Revolving Credit Agreement.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and in our other SEC filings, including the audited consolidated financial statements and the accompanying notes for the fiscal year ended December 31, 2023, which are included in our Annual Report on Form 10-K, filed with the SEC on February 21, 2024. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the sections titled "Risk Factors" and "Special Note Regarding Forward Looking Statements," which include a discussion of the uncertainties, risks and assumptions associated with these statements. The following discussion and analysis also includes a discussion of certain non-GAAP financial measures. For a description and reconciliation of the non-GAAP measures discussed in this section, see "Non-GAAP Financial Measures."

Overview

We are a leading provider of digital banking and lending solutions to financial institutions, financial technology companies, or FinTechs, and alternative finance companies, or Alt-FIs, wanting to incorporate banking into their customer engagement and servicing strategies. Our solutions transform the ways in which financial institutions and other financial services providers engage with account holders and end users, or End Users. Our solutions include a broad and deep portfolio of digital banking solutions; digital lending and relationship pricing solutions; an open technology platform, the Q2 Innovation Studio, which is a portfolio of technologies and programs which can be leveraged to design, develop, and distribute innovative products, services, features, and integrations by enabling a partnership ecosystem on Q2's digital banking platform; and Helix, a cloud-native core that also serves as a comprehensive banking as a service, or BaaS, solution, both of which enable innovative companies and financial institutions to integrate unique banking products and services into their offerings. We purpose-build our platforms and solutions to enable success for our customers and technology partners by allowing them to digitize their operations and offerings, differentiate their digital brands, integrate traditional and emerging financial services, and ultimately, enhance their End-User acquisition, engagement and retention and improve their operational efficiencies and profitability.

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

We have deep domain expertise in developing and delivering advanced digital banking and lending solutions designed to help our customers and technology partners compete in the complex and heavily regulated financial services industry. Over 19 years ago, Q2 began by providing digital banking solutions to domestic regional and community financial institutions, or RCFIs. We have rapidly grown since then through a combination of broad market acceptance of our award-winning solutions and relentless innovation, investment and acquisitions. Our collection of solutions now spans digital banking, digital lending and relationship pricing, digital account opening, regulatory and compliance, account switching, data-driven sales enablement, spending insights and portfolio management, and we serve account holders and borrowers across retail, small to medium business, or SMB, and commercial segments domestically and outside of the U.S. In addition to our open platform solutions and BaaS offerings, we also offer a suite of risk and fraud solutions designed to assist our customers in their effort to safeguard the financial service offerings against fraudulent activities. While we remain focused on our founding mission of building stronger and more diverse communities by strengthening their financial institutions, we intend to draw on our broad product portfolio and deep domain expertise to both further penetrate the digital banking market and drive meaningful expansion activity within our robust customer base across financial services.

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The financial services industry is experiencing significant transformation driven by the growing demand within financial institutions to digitize their operations and offerings, as well as the rise of FinTechs and Alt-FIs, which are reshaping End User expectations for more innovative and engaging digital financial experiences. These shifts are leading to new roles and interdependencies among financial institutions, FinTechs and Alt-FIs, necessitating new technology, partnerships, and business models. We believe that lasting value creation in financial services will be achieved by those companies that are capable of supporting and enhancing this convergence. We have developed a comprehensive suite of solutions to accelerate and optimize this convergence, ranging from digitizing entire banks to facilitating partnerships between financial institutions, FinTechs, and Alt-FIs.

We deliver our solutions to most of our customers using a software-as-a-service, or SaaS, model under which our customers pay subscription fees for the use of our solutions. Our digital banking platform customers have numerous End Users, and those End Users can represent one or more account holders registered to use one or more of our solutions on our digital banking platform. We generally price our digital banking platform solutions based on the number of solutions purchased by our customers and the number of Registered Users, as defined in "Key Operating Measures" below, or commercial account holders utilizing our solutions. We generally earn additional revenues from our digital banking platform customers based on the number of End Users on our solutions, the number of transactions that End Users perform on our solutions, and the excess number of users and transactions above what is included in our standard subscription fee. As a result, our revenues from digital banking platform customers grow as our customers buy more solutions from us and increase the number of End Users utilizing our solutions and as those users increase their number of transactions on our solutions. The structure and terms of our digital lending and relationship pricing arrangements vary, but generally are also sold on a subscription basis through our direct sales organization, and the related revenues are recognized over the terms of the customer agreements. The structure and terms of our Helix arrangements with FinTechs vary, but typically involve relatively lower contracted minimum revenues and instead emphasize usage-based revenue, with such revenue recognized as it is incurred.

We believe we have the opportunity to continue to grow our business and that the investments we are making are positioning us to continue to realize revenue growth and improve our operating efficiencies. These investments will increase our costs on an absolute dollar basis, but the timing and amount of these investments will vary based on the rate at which we expect to add new customers, the implementation and support needs of our customers, our software development plans, our technology and physical infrastructure requirements and the internal needs of our organization. Many of these investments will occur in advance of any associated benefit. If we are successful in growing our revenues by selling additional innovative solutions to existing customers and creating deeper End User engagement, we anticipate that greater economies of scale and increased operating leverage will improve our margins over the long term.

We primarily sell our solutions through our direct sales organization. While the financial institutions market is well-defined due to the regulatory classifications of those financial institutions, markets for FinTechs and Alt-FIs are broader and more difficult to define due to the changing number of providers in each market. Over the long term, we intend to continue to invest in additional sales representatives to identify and address opportunities in the financial institution, FinTech and Alt-FI markets across the U.S. and internationally and to increase our number of sales support and marketing personnel, as well as our investment in marketing initiatives designed to increase awareness of our solutions and generate new customer opportunities.

We have continuously invested in expanding and improving our digital banking platform since we introduced it in 2005, and we intend to continue investing organically and to selectively pursue acquisitions of and strategic investments in technologies that will strengthen and expand the features and functionality of our solutions and provide access to new customers and new markets. Additionally, over the past several years we have acquired or developed new solutions and additional functionality that serve a broader range of needs of financial institutions as well as the needs of FinTechs and Alt-FIs. Our integrated, end-to-end collection of solutions includes retail, SMB and commercial banking, regulatory and compliance, digital lending and relationship pricing, open platform solutions, BaaS, digital account opening, account switching and data-driven sales enablement, spending insights and portfolio management solutions among others. We believe our solutions afford us a distinct competitive advantage, servicing retail, SMB and commercial needs and reflect the culmination of years of strategic development and innovation which in turn has solidified our competitive market position. We have also introduced the Q2 Innovation Studio, an API-based and SDK-based open technology platform that allows our financial institution customers and other technology partners to develop unique extensions of and integrations to our digital banking platform, allowing financial institutions to quickly and easily deploy customized experiences and the latest financial services expected by End Users.

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We believe that financial services providers are best served by a broad integrated portfolio of digital solutions that provide rapid, flexible and comprehensive integration with internal and third-party solutions allowing them to provide modern, intuitive, advanced and regulatory-compliant digital banking and lending services. We also believe that the breadth and depth of our solution offerings and customer base, our open and flexible platform approach, our position as a leading provider of digital banking solutions to a large network of financial institutions, and our expertise in delivering new, advanced, innovative and regulatory-compliant digital banking and lending solutions uniquely position us to capitalize on the evolving needs and challenges within the financial services industry, enabling us to effectively innovate and adapt our offerings to meet the ever-changing demands of our customers and their End Users. We intend to increase investments in technology innovation and software development as we enhance our solutions and platforms and increase or expand the number of solutions that we offer.

As our business grows, we intend to continue to invest in and grow our services and delivery organization to support our customers' needs, help them through their digital transformation, deliver our solutions in a timely and effective manner and maintain our strong reputation. We believe that delivery of consistent, high-quality customer support is a significant driver of purchasing and renewal decisions of our prospects and customers. To develop and maintain a reputation for high-quality service, we seek to build deep relationships with our customers through our customer service organization, which we staff with personnel who are motivated by our common mission of using technology to help our customers succeed and who are knowledgeable with respect to the regulated and complex nature of the financial services industry.

Recent Events

There continues to be widespread geopolitical and macroeconomic uncertainties, some of which are impacting business and consumer behavior. We believe the combination of higher interest rates and persistent inflation, tight labor markets, wage inflation, geopolitical uncertainty, recession fears and other macroeconomic conditions continues to put pressure on some corporate growth initiatives. Persistent elevated interest rates or any further increase in interest rates may reduce account holder demand for loans and can reduce the creditworthiness of existing borrowers, resulting in operational challenges for financial institutions, including higher credit losses and difficulty in assessing risk in their existing loan portfolios and in making new lending decisions. A significant portion of our revenues is derived from sales of our digital banking platform to U.S. based RCFIs, which have and may continue to be impacted by challenges in the macroeconomic environment and financial services industry. However, we believe that higher interest rates also have increased the importance for financial institutions to attract and retain depository relationships, which we believe has increased demand for our digital banking solutions. In recent periods we have observed improved subscription bookings and associated revenue primarily from our digital banking solutions as a result of banking conditions placing an importance on attracting and retaining deposits.

Some financial institutions have in the past experienced significant pressure due to economic uncertainty, liquidity concerns and increased regulation. regulatory scrutiny. In recent years, many financial institutions have merged or been acquired, and periodically during downturns, a limited number of financial institutions have failed, creating market disruption and uncertainty for the financial services industry, in particular among RCFIs. The actions taken by such institutions to address potential liquidity concerns have resulted in certain institutions incurring substantial costs that have negatively impacted, and may continue to negatively impact, their profitability and could lead to further market instability or bank failures. Additionally, regulatory changes aimed at stabilizing the financial system could impose new burdens, further straining the profitability of these institutions and potentially leading to a contraction in economic activities. The current market conditions, including deteriorating performance of loan portfolios, capital constraints due to more stringent reserve requirements, and elevated levels of direct losses and charge-offs for some financial institutions, have also caused and may continue to cause financial institutions to reduce lending activity as they seek to increase their reserves to maintain better liquidity. Additionally, banking regulators, alongside increasingly cautious investors, have increased scrutiny of commercial real estate lending. This heightened attention may compel financial institutions with substantial commercial real estate loan portfolios to adopt more stringent underwriting standards, enhance internal controls, bolster risk management policies, conduct more rigorous portfolio stress testing, and maintain higher reserve levels. While the U.S. government has taken measures to strengthen public confidence in the banking system and protect depositors, such steps may be insufficient to resolve the volatility in the financial markets and reduce the risk of additional bank failures. The duration and severity of these general economic conditions and their long-term effects on us and our customers remain uncertain and difficult to predict. Refer to "Special Note Regarding Forward Looking Statements" above for further discussion of the impact and possible future impacts of general macroeconomic uncertainty and the current challenges facing the financial services industry on our business.

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Key Operating Measures

In addition to the U.S. generally accepted accounting principles, or GAAP, measures described below in "Components of Operating Results," we monitor the following operating measures to evaluate growth trends, plan investments and measure the effectiveness of our sales and marketing efforts.

Installed Customers

We define Installed Customers as the number of customers on live implementations (or installations) of our digital banking platforms. The average size of our Installed Customers, measured in both Registered Users per Installed Customer and revenues per Installed Customer, has increased over time as our existing Installed Customers continue to add Registered Users and commercial account holders, buy more solutions from us, and as we add larger financial institutions to our Installed Customer base. The net rate at which we add Installed Customers varies based on our implementation capacity, the size and unique needs of our customers, the readiness of our customers to implement our solutions and customer attrition, including as a result of merger and acquisition activity among financial institutions. We had 450, 444 and 448 Installed Customers on our digital banking platform as of December 31, 2023, 2022 and 2021, respectively.

Registered Users

We define a Registered User as an individual related to an account holder of an Installed Customer on our consumer digital banking platform who has registered to use one or more of our digital banking solutions and has current access to use those solutions as of the last day of the reporting period presented. Our average number of Registered Users per Installed Customer grows as our existing digital banking platform customers add more Registered Users and as we add larger financial institutions to our Installed Customer base. We anticipate that the number of Registered Users will grow at a faster rate than our number of Installed Customers, however this will be partially offset as our commercial digital banking platform represents a greater proportion of our Installed Customers solutions without the associated Registered User impact. We add new Registered Users through both organic and inorganic growth from existing customers and from the addition of End Users from new Installed Customers. Our Installed Customers had approximately 22.0 million, 21.1 million and 19.2 million Registered Users as of December 31, 2023, 2022 and 2021, respectively. Registered Users as of March 31, 2024 June 30, 2024 were 23.0 million 23.6 million compared to 21.5 million 21.7 million as of March 31, 2023 June 30, 2023.

Net Revenue Retention Rate

We believe that our ability to retain our customers and expand their use of our products and services over time is an indicator of the stability of our revenue base and the long-term value of our customer relationships. One of the ways we assess our performance in this area is by using a metric we refer to as our net revenue retention rate, which we previously referred to as our revenue retention rate. We calculate our net revenue retention rate as the total revenues in a calendar year, excluding any revenues from acquired customers during such year, from customers who were implemented on any of our solutions as of December 31 of the prior year, expressed as a percentage of the total revenues during the prior year from the same group of customers. Our net revenue retention rate provides insight into the impact on current year revenues of: the number of new customers implemented on any of our solutions during the prior year; the timing of our implementation of those new customers in the prior year; growth in the number of End Users on such solutions and changes in their usage of such solutions; and sales of new products and services to our existing customers during the current year, excluding any products or services resulting from businesses acquired during such year and customer attrition. The most significant drivers of changes in our net revenue retention rate each year have historically been the number of new customers in the prior year and the timing of our implementation of those new customers. The timing of our implementation of new customers in the prior year is significant because we do not start recognizing revenues from new customers until they are implemented. If implementations are weighted more heavily in the first or second half of the prior year, our net revenue retention rate will be lower or higher, respectively. In the first half of 2021, our implementations were weighted more heavily, and we experienced a lower net revenue retention rate in 2022 as a result. The continued strength observed in subscription revenue derived from our existing customers, offset by the expected decline in discretionary services revenue with some of our existing customers was reflected in the decline in net revenue retention rate in 2023. Our use of net revenue retention rate has limitations as an analytical tool, and investors should not consider it in isolation. Other companies in our industry may calculate net revenue retention rate differently, which reduces its usefulness as a comparative measure. Our net revenue retention rate was 108%, 110% and 119% for the years ended December 31, 2023, 2022 and 2021, respectively.

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Annualized Recurring Revenue

We believe Subscription Annual Recurring Revenue, or Subscription ARR, and Total Annual Recurring Revenue, or Total ARR, provide important information about our future revenue potential, our ability to acquire new clients, and our ability to maintain and expand our relationship with existing clients. We calculate Subscription ARR as the annualized value of all recurring subscription revenue recognized in the last month of the reporting period, with the exception of variable revenue in excess of contracted amounts for which we instead take the average monthly run rate of the trailing three months within that reporting period. Our Subscription ARR also includes the contracted minimum subscription amounts associated with all contracts in place at the end of the quarter for which revenue recognition has not yet commenced. Subscription revenues are defined within "Critical Accounting Policies and Significant Judgements and Estimates" in our Form 10-K. We calculate Total ARR as the annualized value of all recurring revenue recognized in the last month of the reporting period, with the exception of variable revenue in excess of contracted amounts for which we instead take the average monthly run rate of the trailing three months within that reporting period. Our Total ARR also includes the contracted minimums associated with all contracts in place at the end of the quarter for which revenue recognition has not yet commenced, and revenue generated from Integrated Services, which we previously referred to as Premier Services. Premier Integrated Services revenue is generated from select established customer relationships where we have engaged with the customer for more tailored, premium professional services resulting in a deeper and ongoing level of engagement with them, which we deem to be recurring in nature. Total ARR does not include revenue from professional services or other sources of revenue that are not deemed to be recurring in nature. Subscription and Total ARR are not a forecast of future revenue, which can be impacted by contract start and end dates and renewal rates. Subscription and Total ARR should be viewed independently of revenue and deferred revenue as Subscription and Total ARR are operating metrics and are not intended to be combined with or replace these items. Our use of Subscription and Total ARR has limitations as an analytical tool, and investors should not consider it in isolation. Other companies in our industry may calculate Subscription ARR and Total ARR differently, which reduces their usefulness as comparative measures.

Our Subscription ARR was $593.9 million, $500.9 million and $426.7 million for the years ended December 31, 2023, 2022 and 2021, respectively. Subscription ARR as of March 31, 2024 June 30, 2024 was $615.1 $633.9 million compared to $521.3 $533.2 million as of March 31, 2023 June 30, 2023. Our Total ARR was $734.8 million, $655.2 million and $574.2 million for the years ended

December 31, 2023, 2022 and 2021, respectively. Total ARR as of March 31, 2024 June 30, 2024 was $761.0 $783.0 million compared to $672.7 $681.2 million as of March 31, 2023 June 30, 2023.

Revenue Churn

We utilize revenue churn to monitor the satisfaction of our customers and evaluate the effectiveness of our business solutions and strategies. We define revenue churn as the amount of any monthly recurring revenue losses due to customer cancellations and downgrades, net of upgrades and replacements of existing solutions, during a year, divided by our monthly recurring revenue at the end of the prior year. Cancellations refer to customers that have either stopped using our services completely or remained a customer but terminated a particular service. Downgrades are a result of customers taking less of a particular service or renewing their contract for identical services at a lower price. We had annual revenue churn of 6.1%, 6.3% and 5.4% for the years ended December 31, 2023, 2022 and 2021, respectively. Our use of revenue churn has limitations as an analytical tool, and investors should not consider it in isolation. Other companies in our industry may calculate revenue churn differently, which reduces its usefulness as a comparative measure.

Non-GAAP Financial Measures

In addition to financial measures prepared in accordance with GAAP, we use certain non-GAAP financial measures to clarify and enhance our understanding, and aid in the period-to-period comparison, of our performance. We believe that these non-GAAP financial measures provide supplemental information that is meaningful when assessing our operating performance because they exclude the impact of certain categories that our management and board of directors do not consider part of core operating results when assessing our operational performance, allocating resources, preparing annual budgets and determining compensation. Accordingly, these non-GAAP financial measures may provide insight to investors into the motivation and decision-making of management in operating the business. Set forth in the tables below are the corresponding GAAP financial measures for each non-GAAP financial measure. Investors are encouraged to review the reconciliation of each of these non-GAAP financial measures to its most comparable GAAP financial measure included below. While we believe that these non-GAAP financial measures provide useful supplemental information, non-GAAP financial measures have limitations and should not be considered in isolation from, or as a substitute for, their most comparable GAAP measures. These non-GAAP financial measures are not prepared in accordance with GAAP, do not reflect a comprehensive system of accounting and may not be comparable to similarly titled measures of other companies due to potential differences in their financing and accounting methods, the book value of their assets, their capital structures, the method by which their assets were acquired and the manner in which they define non-GAAP measures. Items such as the deferred revenue reduction from purchase accounting, stock-based compensation, transaction-related costs, amortization of acquired technology, amortization of acquired intangible assets and lease and other restructuring charges can have a material impact on our GAAP financial results.

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Non-GAAP Revenue

We define non-GAAP revenue as total revenue excluding the impact of purchase accounting. We monitor these measures to assess our performance because we believe our revenue growth rates would be understated without these adjustments. We believe presenting non-GAAP revenue aids in the comparability between periods and in assessing our overall operating performance. During the three and six months ended March 31, 2024 June 30, 2024, there was no impact of purchase accounting on revenue, and our non-GAAP total revenue is now equivalent to our GAAP total revenue.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
Revenue:				
Revenue:				

GAAP revenue
GAAP revenue
GAAP revenue
Deferred revenue reduction from purchase accounting
Deferred revenue reduction from purchase accounting
Deferred revenue reduction from purchase accounting
Total Non-GAAP revenue
Total Non-GAAP revenue
Total Non-GAAP revenue

Non-GAAP Operating Income

We provide non-GAAP operating income that excludes such items as deferred revenue reduction from purchase accounting, stock-based compensation, transaction-related costs, amortization of acquired technology, amortization of acquired intangible assets and lease and other restructuring charges. We believe excluding these items is useful for the following reasons:

- *Deferred revenue reduction from purchase accounting.* We provide non-GAAP information that excludes the deferred revenue reduction from purchase accounting. We believe that the exclusion of deferred revenue reduction from purchase accounting allows users of our financial statements to better review and understand the historical and current results of our continuing operations.

- *Amortization of acquired technology and intangible assets*. We provide non-GAAP information that excludes expenses related to purchased technology and intangible assets associated with our acquisitions. We believe that eliminating these expenses from our non-GAAP measures is useful to investors, because the amortization of acquired technology and intangible assets can be inconsistent in amount and frequency and significantly impacted by the timing and magnitude of our acquisition transactions, which also vary in frequency from period to period. Accordingly, we analyze the performance of our operations in each period, both with and without such expenses.

- *Stock-based compensation*. We provide non-GAAP information that excludes expenses related to stock-based compensation. We believe that the exclusion of stock-based compensation expense provides for a better comparison of our operating results to prior periods and to our peer companies as the calculations of stock-based compensation vary from period to period and company to company due to different valuation methodologies, subjective assumptions and the variety of award types. Because of these unique characteristics of stock-based compensation, we exclude these expenses when analyzing the organization's business performance.

- *Transaction-related costs*. We exclude certain expense items resulting from our evaluation and completion of merger and acquisition and divestiture opportunities, such as related legal, accounting and consulting fees and retention expense. We consider these adjustments, to some extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, transaction-related activities result in operating expenses that would not otherwise have been incurred by us in the normal course of our organic business operations. We believe that providing these non-GAAP measures that exclude transaction-related costs allows users of our financial statements to better review and understand the historical and current results of our continuing operations, and also facilitates comparisons to our historical results and results of less acquisitive peer companies, both with and without such adjustments.

- *Lease and other restructuring charges*. We provide non-GAAP information that excludes restructuring charges related to the estimated costs of exiting and terminating facility lease commitments, partially offset by anticipated sublease income, any related impairments of the right of use assets as they relate to corporate restructuring and exit activities, as well as severance and other related compensation charges associated with eliminating certain positions in connection with initiatives intended to align our resources to the portions of our business that we believe will drive the most long-term value. These charges are inconsistent in amount and are significantly impacted by the timing and nature of these events. Therefore, although we may incur these types of expenses in the future, we believe that eliminating these charges for purposes of calculating the non-GAAP financial measures facilitates a more meaningful evaluation of our operating performance and comparisons to our past operating performance.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
GAAP operating loss				
GAAP operating loss				
GAAP operating loss				
Deferred revenue reduction from purchase accounting				
Deferred revenue reduction from purchase accounting				
Deferred revenue reduction from purchase accounting				
Stock-based compensation				
Stock-based compensation				
Stock-based compensation				
Transaction-related costs				
Transaction-related costs				
Transaction-related costs				
Amortization of acquired technology				
Amortization of acquired technology				
Amortization of acquired technology				
Amortization of acquired intangibles				
Amortization of acquired intangibles				
Amortization of acquired intangibles				
Lease and other restructuring charges				
Lease and other restructuring charges				
Lease and other restructuring charges				
Non-GAAP operating income				
Non-GAAP operating income				
Non-GAAP operating income				

Adjusted EBITDA

We define adjusted EBITDA as net loss before depreciation, amortization, stock-based compensation, transaction-related costs, provision for income taxes, interest and other (income) expense, net, deferred revenue reduction from purchase accounting, gain on extinguishment of debt, and lease and other restructuring charges. We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results for the following reasons:

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

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

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

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

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		Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2024	2023	2024	2023
	2024				
	2024				
Reconciliation of net loss to adjusted EBITDA:					
Net loss					
Deferred revenue reduction from purchase accounting					

Reconciliation of net loss to adjusted EBITDA:
Reconciliation of net loss to adjusted EBITDA:
Net loss
Net loss

Deferred revenue reduction from purchase accounting
Deferred revenue reduction from purchase accounting
Stock-based compensation
Stock-based compensation
Stock-based compensation
Transaction-related costs
Transaction-related costs
Transaction-related costs
Depreciation and amortization
Depreciation and amortization
Depreciation and amortization
Lease and other restructuring charges
Lease and other restructuring charges
Lease and other restructuring charges
Provision for income taxes
Provision for income taxes
Provision for income taxes
Gain on extinguishment of debt
Gain on extinguishment of debt
Gain on extinguishment of debt
Interest and other (income) expense, net
Interest and other (income) expense, net
Interest and other (income) expense, net
Adjusted EBITDA
Adjusted EBITDA
Adjusted EBITDA

Components of Operating Results

Revenues

Revenue-generating activities directly relate to the sale, implementation and support of our solutions within a single operating segment. We derive the majority of our revenues from subscription fees for the use of our solutions hosted in either our data centers or with cloud-based service providers, transactional revenue from bill-pay solutions and remote deposit products, revenues for professional services and implementation services related to our solutions and certain third-party related pass-through fees. We recognize the corresponding revenues over time on a ratable basis over the customer agreement term or as incurred based on the nature of the revenue. A small portion of our revenues are derived from customers which host and manage our solutions on-premises or in third-party data centers under term license and maintenance agreements. For these customers, we recognize software license revenue once the customer obtains control of the license, which generally occurs at the start of each license term. For these customers, we recognize the remaining arrangement consideration for maintenance revenue over time on a ratable basis over the term of the software license.

Subscription fees are based on the number of solutions purchased by our customers, the number of End Users using the solutions and other usage fees those users generate using our solutions in excess of the levels included in our standard subscription fee. Subscription fees are billed monthly, quarterly or annually and are recognized monthly over the term of our customer agreements. The initial term of our digital banking platform agreements averages over five years, although it varies by customer. The structure and terms of our digital lending and relationship pricing arrangements vary, but generally are also sold on a subscription basis through our direct sales organization, and the related revenues are recognized over the terms of the customer agreements. The structure and terms of our Helix arrangements with FinTechs vary, but typically involve relatively lower contracted minimum revenues and instead emphasize usage-based revenue, with such revenue recognized as it is incurred. We begin recognizing subscription fees when the control of the service transfers to the customer, generally when the solution is implemented and made available to the customer. We recognize revenue for debit card and bill-pay related transaction services when End-Users utilize debit card services integrated within our Helix and other payment-service solutions in the month incurred based on actual or estimated transactions. The timing of our implementations varies period-to-period based on our implementation capacity, the number of solutions purchased by our customers, the size and unique needs of our customers and the readiness of our customers to implement our solutions. We typically recognize any related implementation services revenues ratably over the initial customer agreement term beginning on the date we commence recognizing subscription fees. Contract asset balances arise primarily when we provide services in advance of billing for those services. Amounts that have been invoiced are recorded in accounts receivable, and in revenues or deferred revenues, depending on when control of the service transfers to the customer.

In recent periods we have observed improved subscription bookings and associated revenue primarily from our digital banking solutions as a result of banking conditions placing an importance on attracting and retaining deposits. During the three and six months ended March 31, 2024 June 30, 2024, our subscription revenue growth was 13% 17% and 15%, respectively, as compared to the prior year period, and we expect subscription revenue will continue to increase as a percentage of total revenue.We revenue. We have observed a general decline in transactional and other revenue from our Helix and payment solutions, resulting from decreased usage. In recent periods, we have also observed a general decline in customer demand for certain discretionary aspects of our solutions, namely professional services, which we believe may be related to challenging macroeconomic conditions and the associated pressure on costs until the economic climate stabilizes and their respective financial outlooks improve.

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Cost of Revenues

Cost of revenues is comprised primarily of salaries and other personnel-related costs, including employee benefits, bonuses and stock-based compensation, for employees providing services to our customers. This includes the costs of our personnel performing implementation, customer support, data center and customer training activities. Cost of revenues also includes the direct costs of bill-pay and other third-party intellectual property included in our solutions, the amortization of deferred solution and services costs, amortization of certain software development costs, co-location facility costs and depreciation of our data center assets, debit card related pass-through fees, cloud-based hosting services, an allocation of general overhead costs, the amortization of acquired technology intangibles and referral fees. We allocate general overhead expenses to all departments based on the number of employees in each department, which we consider to be a fair and representative means of allocation.

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

We capitalize certain software development costs for those employees who are directly associated with and who devote time to developing our software solutions on an individual product basis, including those related to programmers, software engineers and quality control teams, as well as third-party development costs. Software development costs are amortized to cost of revenues when products and enhancements are released or made available over the products' estimated economic lives.

We intend to continue to increase our investments in our implementation and customer support teams and technology infrastructure to serve our customers and support our growth. Over the long term, we expect cost of revenues to continue to grow in absolute dollars as we grow our business but to fluctuate as a percentage of revenues based principally on cost efficiencies realized in the business, the level and timing of implementation support activities, timing of capitalized software development costs, debit card related pass-through fees, and other related costs.

Operating Expenses

Operating expenses primarily consist of sales and marketing, research and development and general and administrative expenses. They also include costs related to our acquisitions and the resulting amortization of acquired intangible assets from those acquisitions. We have from time-to-time experienced difficulty in hiring and retaining highly skilled employees with appropriate qualifications, resulting in increased personnel costs due to competition for talent and the related pressure to improve employee benefits and compensation to remain competitive. In an effort to reduce certain of our personnel related expenditures and improve the scaling of expenses relative to revenue growth, we have increased the efficiency of our global workforce structure beginning in 2023. structure. Over the long term, we intend to continue to hire new employees and make other investments to support our anticipated growth. As a result, we expect our operating expenses to increase in absolute dollars but to decrease as a percentage of revenues over the long term as we grow our business.

Sales and Marketing

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

Sales and marketing expenses as a percentage of total revenues will change in any given period based on several factors including the addition of newly hired sales professionals, the number and timing of newly installed customers and the amount of sales commissions expense amortized related to those customers. Commissions are generally capitalized and then amortized over the expected period of customer benefit. Sales and marketing expenses are impacted by the timing of significant marketing events such as our annual in-person client conference, which we typically hold during the second quarter of each year.

Research and Development

We believe that continuing to improve and enhance our solutions is essential to maintaining our reputation for innovation and growing our customer base and revenues. Research and development expenses include salaries and personnel-related costs, including employee benefits, bonuses and stock-based compensation, third-party contractor expenses, software development costs, allocated overhead and other related expenses incurred in developing new solutions and enhancing existing solutions.

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Certain research and development costs that are related to our software development, which include salaries and other personnel-related costs, comprised of employee benefits, stock-based compensation and bonuses attributed to programmers, software engineers and quality control teams working on our software solutions, are capitalized and included in intangible assets, net on the condensed consolidated balance sheets. We intend to continue our investments in our software development teams and the associated technology in order to serve our customers and support our growth.

General and Administrative

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

Transaction-Related Costs

Transaction-related costs include compensation expenses related to milestone provisions and retention agreements with certain former shareholders and employees of acquired businesses, which are recognized as earned, and various legal and professional service expenses incurred in connection with merger and acquisition and divestiture related matters, which are recognized when incurred.

Amortization of Acquired Intangibles

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

Lease and Other Restructuring Charges

Lease and other restructuring charges include costs related to the early vacating of certain facilities, any related impairment of the right of use assets and ongoing expenses of other vacated facilities, partially offset by anticipated sublease income from the associated facilities, as well as severance and other related compensation charges associated with eliminating certain positions in connection with initiatives intended to align our resources to the portions of our business that we believe will drive the most long-term value.

Total Other Income (Expense), Net

Total other income (expense), net, consists primarily of interest income and expense, other non-operating income and expense, loss on disposal of long-lived assets, foreign currency translation adjustment and gain on extinguishment of debt. We earn interest income on our cash, cash equivalents and investments. Interest expense consists primarily of the interest from the amortization of debt issuance costs and coupon interest attributable to our convertible notes, as well as fees and interest associated with the letter of credit issued to our landlord for the security deposit for our corporate headquarters.

Provision for Income Taxes

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

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Results of Operations

The following table sets forth our condensed results of operations data for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenues(1)				
Revenues(1)				
Revenues(1)				
Cost of revenues(2)				
Cost of revenues(2)				
Cost of revenues(2)				
Gross profit				
Gross profit				
Gross profit				
Operating expenses:				

Operating expenses:		
Operating expenses:	Operating expenses:	
Sales and marketing		
Sales and marketing		
Sales and marketing		
Research and development		
Research and development		
Research and development		
General and administrative		
General and administrative		
General and administrative		
Transaction-related costs		
Transaction-related costs		
Transaction-related costs		
Amortization of acquired intangibles		
Amortization of acquired intangibles		
Amortization of acquired intangibles		
Lease and other restructuring charges		
Lease and other restructuring charges		
Lease and other restructuring charges		
Total operating expenses		
Total operating expenses		
Total operating expenses		
Loss from operations		
Loss from operations		
Loss from operations		
Total other income (expense), net(3)		
Total other income (expense), net(3)		
Total other income (expense), net(3)		
Loss before income taxes		
Loss before income taxes		
Loss before income taxes		
Provision for income taxes		
Provision for income taxes		
Provision for income taxes		
Net loss		
Net loss		
Net loss		

(1) Includes deferred revenue reduction from purchase accounting of zero and $0.1 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and zero and $0.2 million for the six months ended June 30, 2024 and 2023, respectively.

(2) Includes amortization of acquired technology of $5.5 million and $5.9 million for the three months ended March 31, 2024 June 30, 2024 and 2023,, respectively, and $11.0 million and $11.8 million for the six months ended June 30, 2024 and 2023, respectively.

(3) Includes a gain of $19.9 millionrelated to the early extinguishment of a portion of our 2026 Notes and 2025 Notes for the three six months ended March 31, 2023 June 30, 2023.

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

		Three Months Ended June 30,				Six Months Ended June 30,			
		2024		2023		2024		2023	
Revenues(1)	Revenues(1)	100.0	%	100.0	%	100.0	%	100.0	%
Revenues(1)									
Revenues(1)									
Cost of revenues(2)									
Cost of revenues(2)									
Cost of revenues(2)									
Gross profit									
Gross profit									
Gross profit									
Operating expenses:									
Operating expenses:									
Operating expenses:									
Sales and marketing									
Sales and marketing									
Sales and marketing									
Research and development									
Research and development									
Research and development									
General and administrative									
General and administrative									
General and administrative									
Transaction-related costs									
Transaction-related costs									

Transaction-related costs					
Amortization of acquired intangibles					
Amortization of acquired intangibles					
Amortization of acquired intangibles					
Lease and other restructuring charges					
Lease and other restructuring charges					
Lease and other restructuring charges					
Total operating expenses					
Total operating expenses					
Total operating expenses					
Loss from operations					
Loss from operations					
Loss from operations					
Total other income (expense), net(3)					
Total other income (expense), net(3)					
Total other income (expense), net(3)					
Loss before income taxes					
Loss before income taxes					
Loss before income taxes					
Provision for income taxes					
Provision for income taxes					
Provision for income taxes					
Net loss	Net loss	(7.6) %	(15.3) %	(8.0) %	(7.8) %
Net loss					
Net loss					

(1) Includes deferred revenue reduction from purchase accounting of 0.0% and 0.1% for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and 0.0% and 0.1% for the six months ended June 30, 2024 and 2023, respectively.

(2) Includes amortization of acquired technology of 3.3% 3.2% and 3.8% for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and 3.3% and 3.8% for the six months ended June 30, 2024 and 2023, respectively.

(3) Includes an increase of 13.0% 6.5% related to a gain from the early extinguishment of a portion of our 2026 Notes and 2025 Notes for the three six months ended March 31, 2023 June 30, 2023.

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

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Comparison of the Three and Six Months Ended March 31, 2024 June 30, 2024 and 2023

Revenues

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

	Three Months Ended March 31,		Change	
	2024	2023	$	(%)
Revenues	$ 165,508	$ 153,008	$ 12,500	8.2 %

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2024	2023	$	(%)	2024	2023	$	(%)
Revenues	$ 172,890	$ 154,531	$ 18,359	11.9 %	$ 338,398	$ 307,539	$ 30,859	10.0 %

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Revenues increased by $12.5 million $18.4 million, or 8.2% 11.9%, from $153.0 million $154.5 million for the three months ended March 31, 2023 June 30, 2023 to $165.5 million $172.9 million for the three months ended March 31, 2024 June 30, 2024. This increase in revenue was primarily attributable to a $15.2 million $20.1 million increase in subscription revenue from the sale of additional solutions to new and existing customers and growth in usage from new and existing customers, partially offset by a $1.7 million decrease in services and other revenue from declines in professional and discretionary services and Helix related pass-through revenue.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Revenues increased by $30.9 million, or 10.0%, from $307.5 million for the six months ended June 30, 2023 to $338.4 million for the six months ended June 30, 2024. This increase in revenue was primarily attributable to a $35.2 million increase in subscription revenue from the sale of additional solutions to new and existing customers and growth in usage from new and existing customers and a $0.8 million increase in transactional revenue from usage of our solutions, partially offset by a $3.5 million decrease decreases of $5.2 million in services and other revenue from declines in professional and discretionary services and Helix related pass-through revenue related to our Helix solutions. revenue.

Cost of Revenues

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

		Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
		2024	2023	$	(%)	2024	2023	$	(%)
Cost of revenues	Cost of revenues	$ 86,063	$ $80,703	$ $5,360	6.6 6.6 %	$ 169,319	$ $160,414	$ $8,905	5.6 5.6 %
Cost of revenues									
Cost of revenues									
Percentage of revenues									
Percentage of revenues									
Percentage of revenues									

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Cost of revenues increased by $3.5 million $5.4 million, or 4.4% 6.6%, from $79.7 million $80.7 million for the three months ended March 31, 2023 June 30, 2023 to $83.3 million $86.1 million for the three months ended March 31, 2024 June 30, 2024. This increase was primarily attributable to a $2.0 million $2.7 million net increase in co-location facility, hardware and software costs, and depreciation for of our data center assets resulting from the increased infrastructure necessary to support our growing customer base, activity, a $1.9 million increase from the amortization of capitalized software development and capitalized implementation services, a $0.8 million increase in personnel costs, including an increase in the number of personnel who provide implementation and customer support services and maintain our data centers and other technical infrastructure, a $0.7 million $1.5 million increase from the amortization of capitalized software development and capitalized implementation services, a $0.9 million increase in third-party costs related to intellectual property included in our solutions and transaction processing costs incurred and a $0.4 million increase in overhead costs and other discretionary expenses, partially offset by a $1.0 million $1.1 million decrease in pass-through fees, a $0.8 million $0.6 million decrease as a result of higher capitalized implementation costs and a $0.4 million decrease in amortization of acquired customer technology resulting from assets that became fully amortized.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Cost of revenues increased by $8.9 million, or 5.6%, from $160.4 million for the six months ended June 30, 2023 to $169.3 million for the six months ended June 30, 2024. This increase was primarily attributable to a $4.7 million net increase in co-location facility, hardware and software costs, and depreciation of our data center assets resulting from the increased infrastructure necessary to support our growing customer activity, a $3.4 million increase from the amortization of capitalized software development and capitalized implementation services, a $2.7 million increase in personnel costs, including an increase in the number of personnel who provide implementation and customer support services and maintain our data centers and other technical infrastructure, a $1.6 million increase in third-party costs related to intellectual property included in our solutions and transaction processing costs and a $0.8 million increase in overhead costs and other discretionary expenses, partially offset by a $2.1 million decrease in pass-through fees, a $1.4 million decrease as a result of higher capitalized implementation costs and a $0.8 million decrease in amortization of acquired customer technology resulting from assets that became fully amortized.

We continue to invest in personnel, business process improvement, third-party partners for intellectual property and transactional processing in our solutions and systems infrastructure to standardize our business processes and drive future efficiency in our implementations, cloud-based hosting services, customer support and data center operations. As we continue to make these investments, we expect they will increase cost of revenues in absolute dollars, and we expect such expenses to decline as a percentage of revenue as our operations continue to scale and revenues grow.

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Operating Expenses

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

Sales and Marketing

	Three Months Ended June 30,	Change	Six Months Ended June 30,	Change

		2024	2023	$	(%)	2024	2023	$	(%)
Sales and marketing	Sales and marketing	$ 27,733	$ $28,701	$ $(968)	(3.4) (3.4) %	$ 53,178	$ $56,845	$ $(3,667)	(6.5) (6.5)%
Sales and marketing									
Sales and marketing									
Percentage of revenues									
Percentage of revenues									
Percentage of revenues									

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Sales and marketing expenses decreased by $2.7 million $1.0 million, or 9.6% 3.4%, from $28.1 million $28.7 million for the three months ended March 31, 2023 June 30, 2023 to $25.4 million $27.7 million for the three months ended March 31, 2024 June 30, 2024. This decrease was primarily attributable to reduced a $1.5 million reduction in personnel costs due to measures taken to drive efficiencies operational effectiveness in our go-to-market strategy, partially offset by a $0.3 million increase in other discretionary expenses and a $0.3 million increase in marketing activities.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Sales and marketing expenses decreased by $3.7 million, or 6.5%, from $56.8 million for the organization six months ended June 30, 2023 to $53.2 million for the six months ended June 30, 2023. This decrease was primarily attributable to a $4.3 million reduction in personnel costs due to measures taken to drive drive operational effectiveness in our go-to-market strategy, partially offset by a $0.3 million increase in other discretionary expenses and improve the scaling of expenses relative to revenue growth. a $0.3 million increase in marketing activities.

We anticipate that sales and marketing expenses will increase in absolute dollars in the long-term as we continue to support our revenue growth and increase marketing spend to attract new customers, retain and grow existing customers, build brand awareness, and as we continue to hold in-person sales formats and experiences for future user conferences, including our annual client conference typically held during the second quarter. While we anticipate sales and marketing expenses as a percentage of revenue may fluctuate on a near-term basis, we expect such expenses to decline as a percentage of our revenues over the long-term as our revenues grow and we realize cost efficiencies in the business.

Research and Development

		Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
		2024	2023	$	(%)	2024	2023	$	(%)
Research and development	Research and development	$ 35,759	$ $34,096	$ $1,663	4.9 4.9 %	$ 70,621	$ $68,521	$ $2,100	3.1 3.1 %

Research and development

Research and development

Percentage of revenues

Percentage of revenues

Percentage of revenues

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Research and development expenses increased by $0.4 million $1.7 million, or 1.3% 4.9%, from $34.4 million $34.1 million for the three months ended March 31, 2023 June 30, 2023 to $34.9 million $35.8 million for the three months ended March 31, 2024 June 30, 2024. This increase was primarily attributable to a $0.6 million $0.8 million increase in travel-related, overhead costs and other discretionary expenses, partially offset by a $0.3 million decrease in personnel costs as a result of the continuing globalization of growth in our research and development organization to support continued enhancements to our solutions. solutions and a $0.7 million increase from lower capitalization of software development and implementation services costs.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Research and development expenses increased by $2.1 million, or 3.1%, from $68.5 million for the six months ended June 30, 2023 to $70.6 million for the six months ended June 30, 2024. This increase was primarily attributable to a $0.9 million increase from lower capitalization of software development and implementation services costs, a $0.5 million increase in personnel costs as a result of the growth in our research and development organization to support continued enhancements to our solutions and a $0.4 million increase in travel-related and other discretionary expenses.

We anticipate that research and development expenses will increase in absolute dollars in the future as we continue to support and expand our platform and enhance our existing solutions, as we believe existing customers will have an increased focus on maintaining and improving their digital offerings. While we anticipate research and development expenses as a percentage of revenue may fluctuate on a near-term basis, we expect such expenses to decline as a percentage of our revenues over the long-term as our revenues grow and we realize cost efficiencies in the business.

General and Administrative

		Three Months Ended June 30,				Change				Six Months Ended June 30,				Change		
		2024		2023		$		(%)		2024		2023		$		(%)
General and administrative	General and administrative	$ 31,283	$	$27,127	$	$4,156	15.3	15.3 %	$	61,459	$	$51,819	$	$9,640	18.6	18.6 %

General and administrative

General and administrative

Percentage of revenues

Percentage of revenues

Percentage of revenues

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. General and administrative expenses increased by $5.5 million $4.2 million, or 22.2% 15.3%, from $24.7 million $27.1 million for the three months ended March 31, 2023 June 30, 2023 to $30.2 million $31.3 million for the three months ended March 31, 2024 June 30, 2024. The increase in general and administrative expenses was primarily attributable to increased a $5.6 million increase in personnel costs, including stock-based compensation, to support the growth of our business. business and a $0.8 million increase in travel-related and other discretionary expenses, partially offset by a $2.4 million decrease in professional services, including third-party legal fees.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. General and administrative expenses increased by $9.6 million, or 18.6%, from $51.8 million for the six months ended June 30, 2023 to $61.5 million for the six months ended June 30, 2024. The increase in general and administrative expenses was primarily attributable to an $10.7 million increase in personnel costs, including stock-based compensation, to support the growth of our business and a $1.2 million increase in travel-related and other discretionary expenses, partially offset by a $2.4 million decrease in professional services, including third-party legal fees.

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General and administrative expenses consist primarily of salaries, stock-based compensation and other personnel-related costs of our administrative, finance and accounting, information systems, legal, human resources employees and certain members of our executive team. General and administrative expenses also include costs to comply with regulations governing public companies and financial institutions, costs of directors' and officers' liability insurance, third-party legal fees, investor relations activities and costs to comply with Section 404 of the Sarbanes-Oxley Act, or SOX. Over the long term, we anticipate that general and administrative expenses will continue to increase in absolute dollars as we continue to incur both increased external audit fees as well as additional spending to ensure continued regulatory and SOX compliance. We expect such expenses to decline as a percentage of our revenues over the longer term as our revenues grow and we realize cost efficiencies in the business.

Transaction-Related Costs

		Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
		2024	2023	$	(%)	2024	2023	$	(%)
Transaction-related costs	Transaction-related costs	$ —	$ $ 9	$ $(9)	(100.0) (100.0) %	$ —	$ $21	$ $(21)	(100.0) (100.0)%

Transaction-related costs

Transaction-related costs

Percentage of revenues

Percentage of revenues

Percentage of revenues

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Transaction-related costs decreased $12.0 by $9.0 thousand, or 100.0% from $12.0 $9.0 thousand for the three months ended March 31, 2023 June 30, 2023 to zero for the three months ended March 31, 2024 June 30, 2024. Transaction-related costs are related to various legal and professional expenses incurred in connection with merger and acquisition and divestiture activities.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Transaction-related costs decreased by $21.0 thousand, or 100.0%, from $21.0 thousand for the six months ended June 30, 2023 to zero for the six months ended June 30, 2024. Transaction-related costs consisted of various legal and professional expenses incurred in connection with merger and acquisition and divestiture activities.

Amortization of Acquired Intangibles

		Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
		2024	**2023**	**$**	**(%)**	**2024**	**2023**	**$**	**(%)**
Amortization of acquired intangibles	Amortization of acquired intangibles	$ 4,788	$ $5,252	$ $(464)	(8.8) (8.8) %	$ 9,616	$ $10,514	$ $(898)	(8.5) (8.5)%

Amortization of acquired intangibles

Amortization of acquired intangibles

Percentage of revenues

Percentage of revenues

Percentage of revenues

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Amortization of acquired intangibles decreased by $0.4 million $0.5 million, or 8.2% 8.8%, from $5.3 million for the three months ended March 31, 2023 June 30, 2023 to $4.8 million for the three months ended March 31, 2024 June 30, 2024. The acquired intangible assets are related to previously disclosed business combinations. The decrease in amortization is related to the intangible assets that became fully amortized.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Amortization of acquired intangibles decreased by $0.9 million, or 8.5%, from $10.5 million for the six months ended June 30, 2023 to $9.6 million for the six months ended June 30, 2024. The acquired intangible assets are related to previously disclosed business combinations. The decrease in amortization is related to intangible assets that became fully amortized.

Lease and Other Restructuring Charges

		Three Months Ended June 30, 2024	2023	Change $	(%)	Six Months Ended June 30, 2024	2023	Change $	(%)
Lease and other restructuring charges	Lease and other restructuring charges	$ 967	$ $2,312	$ $(1,345)	(58.2) (58.2)%	$ 2,093	$ $4,273	$ $(2,180)	(51.0) (51.0)%
Lease and other restructuring charges									
Lease and other restructuring charges									
Percentage of revenues									
Percentage of revenues									
Percentage of revenues									

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Lease and other restructuring charges decreased by $0.8 million $1.3 million, or 42.6% 58.2%, from $2.0 million $2.3 million for the three months ended March 31, 2023 June 30, 2023 to $1.1 million $1.0 million for the three months ended March 31, 2024 June 30, 2024. The decrease in lease and other restructuring charges was primarily attributable to a $1.3 million $0.9 million decrease related to exiting severance and other related compensation charges associated with eliminating certain positions in connection with initiatives intended to align our resources to the portions of various facilities, including our business that we believe will drive the associated most long-term value and a $0.4 million decrease related to the impairment of the right of use asset during the three prior year period.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Lease and other restructuring charges decreased by $2.2 million or 51.0%, from $4.3 million for the six months ended March 31, 2023, partially offset by June 30, 2023 to $2.1 million for the six months ended June 30, 2024. The decrease in lease and other restructuring charges was primarily attributable to a $0.5 million increase $1.7 million decrease related to the impairment of the right of use asset during the prior year period, a $0.8 million decrease related to severance and other related compensation charges associated with eliminating certain positions in connection with initiatives intended to align our resources to the portions of our business that we believe will drive the most long-term values and a $0.4 million decrease due to the additional costs related to an updated assessments assessment and ongoing expenses of previously vacated various facilities in during the current prior year period.

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Total Other Income (Expense), Net

		Three Months Ended June 30, 2024	2023	Change $	(%)	Six Months Ended June 30, 2024	2023	Change $	(%)
Total other income (expense), net	Total other income (expense), net	$ 2,732	$ $526	$ $2,206	419.4 419.4 %	$ 4,629	$ $21,227	$ $(16,598)	(78.2) (78.2)%
Total other income (expense), net									
Total other income (expense), net									
Percentage of revenues									
Percentage of revenues									
Percentage of revenues									

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Total other income (expense), net represented a net income of $1.9 million $2.7 million for the three months ended March 31, 2024 June 30, 2024 compared to a net income of $20.7 million $0.5 million for the three months ended March 31, 2023 June 30, 2023. The change was primarily due to a $1.7 million increase in income from cash, cash equivalents and investments in the current period and a $0.2 million loss realized on the sale of fixed assets recognized in the prior year period.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Total other income (expense), net represented a net income of $4.6 million for the six months ended June 30, 2024 compared to a net income of $21.2 million for the six months ended June 30, 2023. The change was primarily due to a $19.9 million gain from the partial repurchase of the 2026 Notes and the 2025 Notes during 2023. This was the three months ended March 31, 2023, partially offset by a $0.6 million $2.4 million increase in income from cash, cash equivalents and investments in the current period, and a $0.3 million loss realized losson investments recognized in the prior year period and a $0.2 million realized loss on the sale of fixed assets recognized during the prior year period.

Provision for Income Taxes

		Three Months Ended June 30, 2024	2023	Change $	(%)	Six Months Ended June 30, 2024	2023	Change $	(%)
Provision for income taxes	Provision for income taxes	$ (2,089)	$ $(479)	$ $(1,610)	336.1 336.1 %	$ (3,644)	$ $(497)	$ $(3,147)	633.2 633.2 %

Provision for income taxes

Provision for income taxes

Percentage of revenues

Percentage of revenues

Percentage of revenues

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023. Total provision for income taxes represented an expense of $1.6 million $2.1 million for the three months ended March 31, 2024 June 30, 2024 compared to an expense of $18.0 thousand $0.5 million for the three months ended March 31, 2023 June 30, 2023. As a result of our current net operating loss position, income tax expense for the three months ended March 31, 2024 June 30, 2024 consisted primarily of $1.3 million $0.9 million in state federal income tax and $0.4 million expense, $0.7 million in foreign income tax partially offset by $0.1 million and $0.5 million in federal state income tax benefit. tax. The income tax expense for the three months ended March 31, 2023 June 30, 2023 consisted primarily of $0.5 million in tax amortization of recently acquired goodwill and $0.3 million in foreign income tax, partially offset by $0.3 million in state income tax benefit.

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023. Total provision for income taxes represented an expense of $3.6 million for the six months ended June 30, 2024 compared to an expense of $0.5 million for the six months ended June 30, 2023. As a result of our current net operating loss position, income tax expense for the six months ended June 30, 2024 consisted primarily of $1.8 million in state income tax, $1.1 million in foreign income tax, and $0.7 million in federal income tax expense. The income tax expense for the six months ended June 30, 2023 consisted primarily of $0.3 million in state foreign income tax, partially offset by $0.2 million $0.1 million in federal income tax benefit amortization of recently acquired goodwill and $0.1 million in foreign state income tax benefit. tax.

Seasonality and Quarterly Results

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

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. We continue to monitor the impacts that higher interest rates, the current inflationary environment, challenges in the financial services industry, and global macroeconomic uncertainty may have on our business. The recent challenging macroeconomic conditions and uncertainties in the financial services industry continue to be highly unpredictable and may continue to disrupt any seasonality trends that may otherwise typically be inherent in our historical operating results.

Liquidity and Capital Resources

Sources of Liquidity

We have financed our operations primarily through the proceeds from the issuance of common stock from our initial public offering in March 2014, additional registered common stock offerings, convertible note offerings and cash flows from operations. As of March 31, 2024 June 30, 2024, our principal sources of liquidity were cash, cash equivalents and investments of $338.5 million $372.1 million. Based upon our current levels of operations, we believe that our cash flow from operations along with our other sources of liquidity, which include our ability to access capital markets, are adequate to meet our cash requirements for the next twelve months. However, if we determine the there is a need for additional short-term liquidity, there is no assurance that such financing, if pursued, would be adequate or available on terms acceptable to us.

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Cash Flows

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

		Three Months Ended March 31,			Six Months Ended June 30,	
		2024	2023		2024	2023
Net cash provided by (used in):	Net cash provided by (used in):			Net cash provided by (used in):		
Operating activities						
Investing activities						
Financing activities						
Effect of exchange rate changes on cash, cash equivalents and restricted cash						
Net increase (decrease) in cash, cash equivalents, and restricted cash						
Net increase (decrease) in cash, cash equivalents and restricted cash						

Cash Flows from Operating Activities

Our cash flows from operating activities are primarily influenced by net loss less non-cash items, 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 in the number of installed customers.

For the three six months ended March 31, 2024 June 30, 2024, our net cash and cash equivalents provided by operating activities was $13.4 million $49.5 million, which consisted of a net loss of $13.8 million $26.9 million and non-cash adjustments of $45.1 million $95.4 million, partially offset by cash outflows from changes in operating assets and liabilities of $17.7 million $19.0 million. The primary drivers of cash inflows outflows in operating assets and liabilities were a $23.2 million increase in deferred revenue due to the timing of annual billings and deposits received from customers prior to the recognition of revenue from those related payment. Cash inflows were partially offset by cash outflows resulting from a $13.5 million $17.6 million increase in deferred solution costs primarily from annual commission payments, and deferred implementation costs from both new customers and existing customer expansions, a $13.3 million $16.4 million increase in accounts receivable primarily due to the timing of annual billings at the end of the current quarter and a $6.9 million decrease in accounts payable and accrued liabilities due to timing of payments in support of our expanding customer base and related growth in our technical infrastructure and payment of annual bonuses during the first quarter, and quarter. Cash outflows were partially offset by cash inflows resulting from a $11.3 million $22.6 million increase in accounts receivable primarily deferred revenue due to the timing of annual billings at and deposits received from customers prior to the end recognition of the current quarter. revenue from those related payment. Non-cash adjustments primarily consisted of stock-based compensation, depreciation and amortization, amortization of deferred implementation and deferred solution and other costs, amortization of debt issuance costs and lease impairments, partially offset by amortization of premiums and discounts on investments.

For the three six months ended March 31, 2023 June 30, 2023, our net cash and cash equivalents provided by operating activities was $3.9 million $17.0 million, which consisted of a net loss of $0.5 million $24.1 million and non-cash adjustments of $23.0 million $68.1 million, partially offset by cash outflows from changes in operating assets and liabilities of $18.5 million $27.0 million. The primary drivers of cash outflows in operating assets and liabilities were a $15.7 million $19.4 million increase in deferred solution costs primarily for annual commission payments, and other deferred implementation costs, from for both new customers and existing customer expansions and a $10.9 million an $8.0 million decrease in accounts payable and accrued liabilities due to timing of payments in support of our expanding customer base and related growth in our technical infrastructure and payment of annual bonuses during the first quarter. Cash outflows were partially offset by inflows resulting from a $6.9 million decrease in accounts receivable due to the timing of payments received and a $6.2 million increase in deferred revenue due to payments and deposits received from customers prior to the recognition of revenue from those related payments. customer billings in prior periods exceeding billings to customers during the period. Non-cash adjustments primarily consisted of depreciation and amortization, stock-based compensation, amortization of deferred solution and other costs implementation and deferred solution and other costs, amortization of debt issuance costs and lease and other restructuring charges, impairments, partially offset by a gain on extinguishment of debt. debt and amortization of premiums on investments.

Cash Flows from Investing Activities

Our investing activities have consisted primarily of purchases and maturities of investments, acquisitions of businesses, costs incurred for the development of capitalized software and purchases of property and equipment to support our growth.

For the three six months ended March 31, 2024 June 30, 2024, our net cash provided by investing activities was $23.5 million $12.1 million, consisting of $31.0 million $60.3 million received from the maturities of investments, partially offset by $6.0 million in $33.5 million for purchases of investments, $11.8 million for capitalized software development costs and $1.4 million $2.9 million for the purchase of property and equipment.

For the three six months ended March 31, 2023 June 30, 2023, our net cash provided by investing activities was $78.0 million $57.9 million, consisting of $127.9 million received $143.7 million from the maturities of investments, partially offset by $42.8 million $69.4 million for the purchase purchases of investments, $6.0 million in $13.1 million for capitalized software development costs and $1.0 million $3.3 million for the purchases purchase of property and equipment.

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Cash Flows from Financing Activities

Our recent financing activities have consisted primarily of activity related to our convertible notes as well as net proceeds from exercises of options and contributions to our Employee Stock Purchase Plan, or ESPP, to purchase our common stock.

For the three six months ended March 31, 2024 June 30, 2024, our net cash provided by financing activities was $8.4 million $11.4 million due to cash received from exercises of stock options. options and contributions to our ESPP to purchase our common stock.

For the three six months ended March 31, 2023 June 30, 2023, our net cash used in financing activities was $160.3 million $156.5 million, primarily consisting of $149.6 million for payments for the partial repurchase repurchases of the 2026 Notes and 2025 Notes and $10.9 million in for payment for maturity of convertible notes issued the 2023 Notes which matured in February 2018 that were due 2023, partially offset by $3.9 million in February 2023. cash received from exercises of stock options and contributions to our ESPP to purchase our common stock.

Contractual Obligations and Commitments

Our principal commitments consist of the 2026 Notes, 2025 Notes, non-cancelable operating leases related to our facilities, minimum purchase commitments for sponsorship obligations, third-party products, co-location fees and other product costs. Our obligations under our convertible senior notes are described in Note 9 to our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Information regarding our non-cancellable lease leases and other purchase commitments as of the three six months ended March 31, 2024 June 30, 2024 can be found in Note 7 and Note 8 to our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

See Note 2 - Summary of Significant Accounting Policies contained in the Notes to Condensed Consolidated Financial Statements included in this report, regarding the impact of certain recent accounting pronouncements.

Critical Accounting Policies and Significant Judgements and Estimates

The preparation of our interim unaudited condensed consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities in our interim unaudited condensed consolidated financial statements and accompanying notes. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates, judgments and assumptions on an ongoing basis, and while we believe that our estimates, judgments and assumptions are reasonable, they are based upon information available at the time. Actual results might differ from these estimates under different assumptions or conditions.

Our significant accounting policies are discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Critical Accounting Policies and Significant Judgments and Estimates" in our Form 10-K. There were no material changes to our significant accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

We have cash and cash equivalents held primarily in cash and money market funds. In addition, we have marketable securities which typically include U.S. government securities, corporate bonds and commercial paper and certificates of deposit. Cash and cash equivalents are held for working capital purposes. Marketable securities are held and invested with capital preservation as the primary objective. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Any declines in interest rates will reduce future interest income. If overall interest rates fell by 10% in 2024 or 2023, our interest income would not have been materially affected. As of March 31, 2024 June 30, 2024, we had an outstanding principal amount of $304.0 million of 2026 Notes with a fixed annual interest rate of 0.75% and an outstanding principal amount of $191.0 million of 2025 Notes with a fixed annual interest rate of 0.125%.

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Foreign Currency Risk

As of March 31, 2024 June 30, 2024, our most significant currency exposures were the Indian rupee, Canadian dollar, British pound, Australian dollar and Mexican peso. As of March 31, 2024 June 30, 2024, we had operating subsidiaries in India, Canada, the United Kingdom, Australia and Mexico. Due to the relatively low volume of payments made by us through these foreign subsidiaries, we do not believe we have significant exposure to foreign currency exchange risks. However, fluctuations in currency exchange rates could harm our results of operations in the future.

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

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. As inflation has accelerated in the U.S. and globally, we continue to monitor all inflation-driven costs, regardless of where they are incurred. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024 June 30, 2024, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Reference is made to the factors set forth under the caption "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q and other risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. There Other than as set forth below, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

We incurred indebtedness by issuing our 2026 Notes in 2019, and our 2025 Notes in 2020, we may borrow under our Revolving Credit Agreement, and our debt repayment obligations may adversely affect our financial condition and cash flows from operations in the future.

Our indebtedness under our convertible notes may impair our ability to obtain additional financing in the future for general corporate purposes, including working capital, capital expenditures, potential acquisitions and strategic transactions, and a portion of our cash flows from operations may have to be dedicated to repaying the principal of the 2026 Notes in 2026 and the principal of the

2025 Notes in 2025, or earlier if necessary. Additionally, if our stock trades at a level where the conversion of any series of our convertible notes is not economical for note holders, the conversion of the applicable series of convertible notes is unlikely. This would require us to repay the full aggregate principal amount outstanding of the applicable series of our convertible notes, plus accrued and unpaid interest and additional amounts (if any) at maturity, in lieu of settling conversions of the convertible notes, and thus extinguishing our indebtedness under such convertible notes, with shares of our common stock.

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

Our Credit Agreement provides for a $125.0 million revolving line of credit, none of which was drawn as of July 31, 2024. The Credit Agreement contains affirmative and negative covenants, including covenants which restrict our ability to, among other things, create liens, incur additional indebtedness and engage in certain other transactions, in each case subject to certain exclusions. In addition, the Credit Agreement contains certain financial covenants which become effective in the event our liquidity (as defined in the Credit Agreement) falls below a certain level. The Credit Agreement contains customary events of default relating to, among other things, payment defaults, cross-acceleration to material indebtedness, bankruptcy-related defaults, and the occurrence of certain change of control events. Borrowings under the Revolving Credit Agreement are secured by our assets and those of Q2 Software, Inc., our wholly owned subsidiary, which has guaranteed all obligations under the Revolving Credit Agreement. The occurrence of an event of default may result in the termination of the Revolving Credit Agreement, an acceleration of repayment obligations with respect to any outstanding principal amounts, an acceleration of repayment obligations with respect to the 2025 Notes and 2026 Notes, or the lenders foreclosing on their security interest, the occurrence of any of which could have an adverse effect on our business, financial condition and results of operations.

Our indebtedness could have important consequences because it may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate or other purposes, or otherwise constrain the operation of our business.Our ability to meet our debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors, many of which are not under our control. Our future operations may not generate sufficient cash to enable us to repay our debt. If we fail to comply with any covenants contained in the agreements governing any of the debt or fail to make a payment on our debt when due, we could be in default on such debt. If we are at any time unable to pay our indebtedness when due, we may be required to renegotiate the terms of the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that, in the future, we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

None.

(c) Repurchases

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Rule 10b5-1 Trading Plans

The adoption or termination of contracts, instructions or written plans for the purchase or sale of our securities by our officers and directors for the three months ended March 31, 2024 June 30, 2024, each of which is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act (a "Rule 10b5-1 Trading Plan"), were as follows:

David Mehok, James Offerdahl, Director, entered into a Rule 10b5-1 Trading Plan on May 29, 2024. Mr. Offerdahl's plan provides for the potential sale of up to 3,561 shares of the Company's common stock between August 28, 2024 and August 22, 2025.

John Breeden, Chief Financial Operating Officer, entered into a Rule 10b5-1 Trading Plan on March 12, 2024 June 10, 2024. Mr. Mehok's Breeden's plan provides for the potential sale of up to 14,601 110,130 shares of the Company's common stock between August 21, 2024 March 4, 2025 and August 30, 2024.

Jonathan Price, Executive Vice President, Emerging Businesses, Corporate and Business Development, entered into a Rule 10b5-1 Trading Plan on March 12, 2024. Mr. Price's plan provides for the potential sale of up to 34,117 shares of the Company's common stock between June 14, 2024 and March 7, 2025, including the potential exercises of vested stock options and the associated sale of up to 11,641 shares of common stock.

Kimberly Rutledge, Chief People Officer, entered into a Rule 10b5-1 Trading Plan on March 15, 2024. Ms. Rutledge's plan provides for the potential sale of up to 52,686 shares of the Company's common stock between June, 14, 2024 and March 31, 2025 March 30, 2025, less any shares sold pursuant to mandatory sell-to-cover transactions not covered by the plan related to withholding taxes due as a result of the vesting of any restricted stock units, market stock units or performance stock units covered by the plan. plan.

Table Michael Volanoski, Chief Revenue Officer, entered into a Rule 10b5-1 Trading Plan on June 13, 2024. Mr. Volanoski's plan provides for the potential sale of Contents

up to 121,565 shares of the Company's common stock between December 11, 2024 and December 20, 2025, less any shares sold pursuant to mandatory sell-to-cover transactions not covered by the plan related to withholding taxes due as a result of the vesting of any restricted stock units, market stock units or performance stock units covered by the plan.

Non-Rule 10b5-1 Trading Arrangements

In June 2023, the Company adopted a policy pursuant to which any participant in the Company's equity incentive plans whose transactions are subject to Section 16 of the Security Exchange Act of 1934, as amended, is required to sell, upon the vesting or settlement of any such award, a portion of the shares subject to the award determined by the Company in its discretion to be sufficient to cover tax withholding obligations and to remit an amount equal to such tax withholding obligations to the Company. This mandatory sell-to-cover policy was adopted by the Company as a result of the inability of the Company's captive broker to effect the sell-to-cover transactions pursuant to Rule 10b5-1 Trading Plans.

Item 6. Exhibits.

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

EXHIBIT INDEX

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

* Incorporated herein by reference to the indicated filing.
** Filed herewith.
\# Furnished herewith.

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SIGNATURES

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

Q2 HOLDINGS, INC.

May 1, July 31, 2024	By:	/s/ MATTHEW P. FLAKE Matthew P. Flake *Chief Executive Officer and Chairman* *(Principal Executive Officer)*
May 1, July 31, 2024	By:	/s/ DAVID J. MEHOK David J. Mehok *Chief Financial Officer* *(Principal Financial and Accounting Officer)*

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EXHIBIT 31.1

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

I, Matthew P. Flake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Q2 Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing

the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2024 July 31, 2024

/s/ MATTHEW P. FLAKE

Matthew P. Flake

Chief Executive Officer and Chairman

(Principal Executive Officer)

EXHIBIT 31.2

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

I, David J. Mehok, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Q2 Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2024 July 31, 2024

/s/ DAVID J. MEHOK

David J. Mehok
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

The undersigned, the Chief Executive Officer of Q2 Holdings, Inc. (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2024 June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2024 July 31, 2024

/s/ MATTHEW P. FLAKE

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

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

EXHIBIT 32.2

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

The undersigned, the Chief Financial Officer of Q2 Holdings, Inc. (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2024 June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2024 July 31, 2024

/s/ DAVID J. MEHOK

David J. Mehok
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

DISCLAIMER

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