Zendesk, Inc.
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission File Number: 001-36456

ZENDESK, INC.

(Exact Name of Registrant as Specified in its Charter)

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

1019 Market Street

San Francisco, California 94103

(Address of principal executive offices)

415.418.7506

(Registrant's Telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of July 31, 2014, there were 72,380,374 shares of the registrant's common stock outstanding.

ZENDESK, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

our future financial performance, including our revenue, cost of revenue, gross profit, operating expenses, ability to generate positive cash flow, ability to improve our gross margin, and ability to achieve and maintain profitability;
the sufficiency of our cash and cash equivalents, and marketable securities to meet our liquidity needs;
our ability to attract and retain customers to use our customer service platform and live chat software, and to optimize the pricing for our customer service platform and live chat software;
the evolution of technology affecting our platform, services, and markets;
our ability to innovate and provide a superior customer experience;
our ability to successfully expand in our existing markets and into new markets, including expanding our enterprise customer base;
the attraction and retention of qualified employees and key personnel;
worldwide economic conditions and their impact on information technology spending;
our ability to effectively manage our growth and future expenses, including our ability to expand, and realize economies of scale within our self-managed colocation data centers and reduce incremental personnel costs resulting from growth of customers;
our ability to successfully offer Zopim live chat software as a standalone service and further integrate it with our customer service platform;
our ability to maintain, protect, and enhance our intellectual property;
our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations;
the increased expenses and administrative workload associated with being a public company; and
the estimates and methodologies used in calculating our key business metrics.

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

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

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

ZENDESK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and shares)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 120,054	$ 53,725
Marketable securities	9,430	9,889
Accounts receivable, net of allowance for doubtful accounts of $361 and $282 as of June 30, 2014 and December 31, 2013, respectively	9,655	7,237
Prepaid expenses and other current assets	5,806	3,008
Total current assets	144,945	73,859
Marketable securities, noncurrent	2,764	2,225
Property and equipment, net	38,160	15,431
Goodwill and intangible assets, net	15,961	—
Other assets	1,482	1,221
Total assets	$ 203,312	$ 92,736
Liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$ 6,758	$ 3,988
Accrued liabilities	11,764	4,737
Accrued compensation and related benefits	7,971	4,226
Deferred revenue	38,526	28,473
Current portion of credit facility	2,685	365
Current portion of capital leases	195	364
Total current liabilities	67,899	42,153
Deferred revenue, noncurrent	462	575
Credit facility, noncurrent	5,015	23,395
Capital leases, noncurrent	—	10
Other liabilities	8,193	1,510
Total liabilities	81,569	67,643
Commitments and contingencies (Note 7)		
Redeemable convertible preferred stock, par value $0.01 per share, issuable in series: no shares and 24.0 million	—	71,369

shares authorized; no shares and 23.6 million shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively		
Stockholders' equity (deficit):		
Preferred stock, par value $0.01 per share: 5.0 million and no shares authorized as of June 30, 2014 and December 31, 2013, respectively; no shares issued and outstanding as of June 30, 2014 and December 31, 2013	—	—
Common stock, par value $0.01 per share: 400.0 million and 125.0 million shares authorized; 72.8 million and 23.7 million shares issued; 72.3 million and 23.2 million shares outstanding as of June 30, 2014 and December 31, 2013, respectively (including 0.8 million shares subject to repurchase, legally issued and outstanding, as of June 30, 2014 and December 31, 2013)	715	229
Additional paid-in capital	217,815	18,591
Accumulated other comprehensive income	322	10
Accumulated deficit	(96,457)	(64,454)
Treasury stock at cost (0.5 million shares as of June 30, 2014 and December 31, 2013)	(652)	(652)
Total stockholders' equity (deficit)	121,743	(46,276)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	$ 203,312	$ 92,736

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	$29,506	$16,396	$54,598	$30,307
Cost of revenue [1]	11,731	5,681	20,726	10,551
Gross profit	17,775	10,715	33,872	19,756
Operating expenses [1]:				
Research and development	10,499	3,528	15,677	6,877
Sales and marketing	20,339	8,208	34,626	16,203
General and administrative	8,315	5,140	14,699	8,098
Total operating expenses	39,153	16,876	65,002	31,178
Operating loss	(21,378)	(6,161)	(31,130)	(11,422)
Other expense, net	(450)	(133)	(909)	(210)
Loss before provision for income taxes	(21,828)	(6,294)	(32,039)	(11,632)
Provision (benefit) for income taxes	(85)	58	(36)	78
Net loss	(21,743)	(6,352)	(32,003)	(11,710)
Accretion of redeemable convertible preferred stock	(6)	(12)	(18)	(24)
Net loss attributable to common stockholders	$(21,749)	$(6,364)	$(32,021)	$(11,734)
Net loss per share attributable to common stockholders, basic and diluted	$(0.48)	$(0.30)	$(0.95)	$(0.55)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	45,760	21,568	33,817	21,213

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	$1,010	$61	$1,100	$100
Research and development	4,168	155	4,478	226

Sales and marketing	3,268	229	3,758	388
General and administrative	2,537	2,022	3,471	2,155

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(21,743)	$(6,352)	$(32,003)	$(11,710)
Other comprehensive loss, net of tax:				
Net change in unrealized gain (loss) on available-for-sale investments	(7)	(10)	(8)	(21)
Foreign currency translation gain	123	—	320	—
Comprehensive loss	$(21,627)	$(6,362)	$(31,691)	$(11,731)

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net loss	$(32,003)	$(11,710)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,504	2,165
Share-based compensation	12,807	2,869
Other	178	21
Changes in operating assets and liabilities:		
Accounts receivable	(1,857)	(1,032)
Prepaid expenses and other current assets	(2,617)	(823)
Other assets and liabilities	490	348
Accounts payable	(535)	404
Accrued liabilities	872	874
Accrued compensation and related benefits	3,426	777
Deferred revenue	9,647	5,945
Net cash used in operating activities	(5,088)	(162)
Cash flows from investing activities		
Purchases of property and equipment	(13,097)	(3,979)
Internal-use software and website development costs	(3,915)	(2,344)
Purchases of marketable securities	(6,464)	(12,409)
Proceeds from maturities of marketable securities	6,250	—
Cash paid for the acquisition of Zopim, net of cash acquired	(1,896)	—
Net cash used in investing activities	(19,122)	(18,732)
Cash flows from financing activities		
Proceeds from initial public offering, net of issuance costs	104,377	—
Proceeds from exercise of employee stock options	3,372	233
Proceeds from issuance of debt	3,940	—
Principal payments on debt	(20,000)	—
Taxes paid related to net share settlement of equity awards	(969)	—
Principal payments on capital lease obligations	(179)	(166)
Net cash provided by financing activities	90,541	67
Effect of exchange rate changes on cash and cash equivalents	(2)	17
Net increase (decrease) in cash and cash equivalents	66,329	(18,810)
Cash and cash equivalents at the beginning of period	53,725	48,688
Cash and cash equivalents at the end of period	$120,054	$29,878
Supplemental cash flow data:		
Cash paid for interest and income taxes	$660	$56

Non-cash investing and financing activities:		
Issuance of common stock for the acquisition of Zopim	$10,893	$—
Purchases of property and equipment in accounts payable and accrued expenses	$5,001	$45
Property and equipment acquired through tenant improvement allowances	$3,554	$—
Share-based compensation capitalized in internal-use software development costs	$1,125	$85
IPO costs in accounts payable	$1,145	$—
Vesting of early exercised stock options	$810	$612

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Overview and Basis of Presentation

Company and Background

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

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

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

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our final prospectus filed with the SEC on May 16, 2014 pursuant to Rule 424(b) of the Securities Act of 1933, as amended. There have been no changes to our significant accounting policies described in the prospectus that have had a material impact on our condensed consolidated financial statements and related notes.

The consolidated balance sheet as of December 31, 2013 included herein was derived from the audited financial statements as of that date. The unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, our comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2014.

Initial Public Offering

In May, 2014, we completed our initial public offering, or IPO, in which we issued and sold 12.8 million shares of common stock at a public offering price of $9.00 per share. We received net proceeds of $103.1 million after deducting underwriting discounts and commissions of $8.1 million and other offering expenses of $3.8 million. Upon the closing of the IPO, all shares of our then-outstanding redeemable convertible preferred stock automatically converted into an aggregate of 34.3 million shares of common stock.

All restricted stock units, or RSUs, and certain options granted to employees prior to the IPO vest upon the satisfaction of both a service condition and a performance condition. These RSUs and stock options with both a service condition and performance condition are collectively referred to as “Performance Awards” in the following discussion. The service condition for substantially all of the Performance Awards is satisfied over three or four years. The performance condition was satisfied upon the effectiveness of the registration statement related to our IPO. No share-based compensation expense had been recognized for the Performance Awards prior to the IPO. Upon the satisfaction of the performance condition, we recognized a cumulative share-based compensation expense for the portion of the Performance Awards that had met the service condition. For the three and six months ended June 30, 2014, share-based compensation expense related to the Performance Awards recognized was $6.1 million, using the accelerated attribution method. The remaining unrecognized share-based compensation expense related to the Performance Awards will be recorded over the remaining requisite service period using the accelerated attribution method, net of estimated forfeitures.

As of June 30, 2014, we had a total of $63.8 million future period share-based compensation expense related to all equity awards, net of estimated forfeitures, to be recognized over a weighted average period of 3.7 years.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include the fair value of share-based awards, fair value of acquired intangible assets, goodwill, unrecognized tax benefits, useful lives of intangible assets and property and equipment, and the capitalization and estimated useful life of our capitalized internal-use software.

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

Recently Issued and Adopted Accounting Pronouncements

On May 28, 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606 “Revenue from Contracts with Customers.” This ASU provides principles for recognizing revenue to which an entity expects to be entitled for the transfer of promised goods or services to customers. This ASU will be effective for our fiscal year beginning January 1, 2017. Early adoption is not permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Note 2. Acquisition

On March 21, 2014, we completed the acquisition of Zopim Technologies Pte Ltd., or Zopim, a software development company that provides a SaaS live chat service. The fair value of assets acquired and liabilities assumed was based on a preliminary valuation and our estimates and assumptions are subject to change within the measurement period. The primary areas of those preliminary estimates that are not yet finalized relate to accrued liabilities and income and non-income based tax liabilities. During the three months ended June 30, 2014, we made adjustments of $0.2 million to the preliminary purchase price allocation related to final working capital acquired. The total adjusted acquisition date fair value of consideration transferred was $15.8 million ($4.9 million of cash and $10.9 million of our common stock), which included $1.1 million of cash and $2.4 million of common stock consideration held back between 12 and 18 months as partial security for standard indemnification obligations. Of the total purchase price, $9.6 million was allocated to goodwill, $6.6 million to identifiable intangible assets, and $0.4 million to net liabilities assumed. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purpose. Pro forma revenue and results of operations have not been presented because the historical results of Zopim were not material to our consolidated financial statements in any period presented.

In connection with the acquisition, we also established a retention plan pursuant to which we issued RSUs for 0.9 million shares of our common stock, which vest in three annual installments from the date of acquisition, and agreed to pay cash in an aggregate amount of $3.0 million in two annual installments from the date of acquisition to Zopim employees in connection with their continued employment, which is recorded as compensation expense over the associated service periods of such employees.

Note 3. Fair Value Measurements

The following tables present information about our financial assets measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurement at June 30, 2014		
	Level 1	Level 2	Total
Description			
U.S. corporate securities	$—	$12,194	$12,194
Money market funds	10,799	—	10,799
Total	$10,799	$12,194	$22,993
Included in cash and cash equivalents			$10,799
Included in marketable securities			$12,194

	Fair Value Measurement at December 31, 2013		
	Level 1	Level 2	Total
Description			
U.S. corporate securities	$—	$12,114	$12,114
Money market funds	10,836	—	10,836
Total	$10,836	$12,114	$22,950
Included in cash and cash equivalents			$10,836
Included in marketable securities			$12,114

There were no transfers between fair value measurement levels during the six months ended June 30, 2014.

Gross unrealized gains or losses for cash equivalents and available-for-sale marketable securities as of June 30, 2014 and December 31, 2013 were not material. As of June 30, 2014 and December 31, 2013, there were no securities that were in an unrealized loss position for more than 12 months.

The following table classifies our available-for-sale marketable securities by contractual maturities as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Due in one year	$9,430	$ 9,889
Due in one to five years	2,764	2,225
Total	$12,194	$ 12,114

Note 4. Property and Equipment

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

	June 30, 2014	December 31, 2013
Capitalized internal-use software	$13,119	$ 11,104
Furniture and fixtures	4,156	1,383
Hosting equipment	11,630	7,931
Computer equipment and software	3,583	1,680
Leasehold improvements	12,438	1,717
Construction in progress	6,014	341

Total	50,940	24,156
Less accumulated depreciation and amortization	(12,780)	(8,725)
Property and equipment, net	$38,160	$ 15,431

Depreciation expense was $1.2 million and $0.7 million for the three months ended June 30, 2014 and 2013, respectively, and $2.3 million and $1.1 million for the six months ended June 30, 2014 and 2013, respectively.

We capitalized $3.2 million and $1.3 million in internal-use software during the three months ended June 30, 2014 and 2013, respectively, and $5.0 million and $2.4 million during the six months ended June 30, 2014 and 2013, respectively. Included in the capitalized development costs are $1.1 million and $0.1 million in share-based compensation costs for the three months ended June 30, 2014 and 2013, respectively, and $1.1 and $0.1 million for the six months ended June 30, 2014 and 2013, respectively. Amortization expense of capitalized internal-use software totaled $1.0 million and $0.5 million for the three months ended June 30, 2014 and 2013, respectively, and $1.7 million and $1.0 million for the six months ended June 30, 2014 and 2013, respectively. The carrying value of capitalized internal-use software at June 30, 2014 and December 31, 2013 was $10.2 million and $6.8 million, respectively, including $3.4 million and $0.3 million in construction in progress, respectively.

Note 5. Goodwill and Purchased Intangible Assets

Goodwill as of June 30, 2014 was $9.8 million. No goodwill was recorded as of December 31, 2013.

Purchased intangible assets subject to amortization as of June 30, 2014 consisted of the following (in thousands). No purchased intangible assets were recorded as of December 31, 2013.

	Cost	Accumulated Amortization	Net	Remaining Useful Life (In years)
Developed technology	$5,308	$ (420)	$4,888	3.2
Customer relationship	1,327	(92)	1,235	3.7
Trade name	61	(17)	44	0.7
	$6,696	$ (529)	$6,167	

Amortization expense of purchased intangible assets for the three and six months ended June 30, 2014 was $0.5 million. No amortization expense was recorded for the three and six months ended June 30, 2013.

Estimated future amortization expense as of June 30, 2014 is as follows (in thousands):

Remainder of 2014	$963
2015	1,862
2016	1,854
2017	1,418
2018	70
2019 and thereafter	—
	$6,167

Note 6. Credit Facility

We have a credit facility with Silicon Valley Bank consisting of a $20.0 million revolving line of credit and a $10.0 million equipment line of credit. As of December 31, 2013, outstanding balance under the revolving line of credit was $20.0 million. In June 2014 we repaid all outstanding principal and accrued interest under the revolving line of credit and as of June 30, 2014 there was no balance outstanding. As of June 30, 2014 and December 31, 2013, outstanding balance under the equipment line of credit was $7.7 million and $3.8 million, respectively.

Prior to our IPO, borrowings on the revolving line of credit bore interest at the Prime Rate plus 2.0% per annum. Upon the consummation of the IPO, the interest rate was reduced to the Prime Rate. Borrowings on the revolving line of credit are subject to a borrowing base limit determined monthly based on our recurring revenue metrics from previous months and the ratio of certain current assets to current liabilities as of the previous month end. To the extent we borrow funds pursuant to the revolving line of credit, we are entitled to make interest-only payments until January 1, 2016, when the outstanding balance is due in full.

Borrowings on the equipment line of credit bear interest of 2.5% per annum. For each equipment advance, we are entitled to make interest-only payments until September 14, 2014, when the last draw against the equipment line of credit can be made. The outstanding balance as of September 14, 2014 will be payable in equal monthly installments for 30 months thereafter, with the last payment due on March 14, 2017. We are also required to make a final payment fee of 4.0% of the aggregate principal amount of all historical advances made under the equipment line of credit on March 14, 2017.

The credit facility is collateralized by substantially all of our assets, excluding our intellectual property. Our domestic subsidiary is a guarantor of the credit facility and we have pledged up to 65% of the equity in our international subsidiaries as collateral. The credit facility also imposes various covenants on us, including the delivery of financial and other information, the maintenance of our primary operating and securities accounts with the lender, the maintenance of minimum revenue targets and an agreed ratio of certain current assets to current liabilities, as well as limitations on dispositions, changes in business or management, certain mergers or consolidations, dividends and other corporate activities. As of June 30, 2014 and December 31, 2013, we were in compliance with all of the covenants contained in the credit facility.

Contractual future principal repayments in relation to the credit facility are as follows for the year ending December 31 (in thousands):

2014 (remaining 6 months)	$749
2015	3,041
2016	3,118
2017	792
2018 and thereafter	—
	$7,700

Note 7. Commitments and Contingencies

Leases

We lease office space under noncancelable operating leases with various expiration dates. Certain of the office space lease agreements contain rent holidays or rent escalation provisions. Rent holiday and rent escalation provisions are considered in determining the straight-line expense to be recorded over the lease term. The lease term begins on the date of initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. Rent expense was $1.8 million and $0.5 million for the three months ended June 30, 2014 and 2013, respectively, and $3.5 million and $0.9 million for the six months ended June 30, 2014 and 2013, respectively. Deferred rent was $6.6 million and $1.0 million as of June 30, 2014 and December 31, 2013, respectively, which is included in other liabilities.

We lease computer equipment from various parties under capital lease agreements that expire through March 2015. The total outstanding balance financed under capital leases was $0.2 million and $0.4 million as of June 30, 2014 and December 31, 2013, respectively. Accumulated depreciation on the leased assets was $0.8 million and $0.7 million as of June 30, 2014 and December 31, 2013, respectively. Depreciation of assets recorded under the capital leases is included in depreciation expense.

Litigation and Loss Contingencies

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

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

Note 8. Common Stock and Stockholders’ Equity (Deficit)

Convertible Preferred Stock

Upon the completion of the IPO, all outstanding convertible preferred stock was converted into 34.3 million shares of common stock.

Reverse Stock Split

In April 2014, our board of directors and stockholders approved an amendment of our sixth amended and restated certificate of incorporation, as amended to effect a one-for-two reverse stock split of our common stock and a corresponding adjustment to the conversion prices of our redeemable convertible preferred stock. All share and per share information and the conversion prices of each outstanding series of our redeemable convertible preferred stock referenced throughout the condensed consolidated financial statements and notes to the condensed consolidated financial statements have been retroactively adjusted to reflect this stock split.

Common Stock Authorized

Upon the completion of the IPO, we increased the amount of common stock authorized for issuance from 125.0 million to 400.0 million common shares with a par value of $0.01 per share.

Employee Equity Plans

Employee Stock Purchase Plan

Our board of directors adopted the Employee Stock Purchase Plan, or ESPP, in February 2014, which became effective on May 14, 2014. The ESPP initially reserved and authorized the issuance of up to 3.6 million shares of common stock. The ESPP provides that the number of shares reserved and available for issuance under the plan will automatically increase each January, beginning on January 1, 2015, by the lesser of 1.5 million shares, 1% of the number of shares issued and outstanding on the immediately preceding December 31, or such lesser number of shares as determined by our compensation committee.

2009 Stock Option and Grant Plan

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

2014 Stock Option and Grant Plan

Our board of directors adopted the 2014 Stock Option and Incentive Plan, or the 2014 Plan, in February 2014, which became effective in May 2014 upon the effectiveness of the registration statement related to our IPO. The 2014 Plan serves as the successor to our 2009 Plan. The 2014 Plan initially reserved and authorized the issuance of 7.5 million shares of our common stock. Additionally, shares not issued or subject to outstanding grants under the 2009 Plan rolled into the 2014 Plan, resulting in a total of 8.3 million available shares under the 2014 Plan as of the effective date. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2015, by 5% of the outstanding number of shares of our common stock on the immediately preceding December 31, or such lesser number of shares as determined by our compensation committee.

The following table summarizes our stock option and RSU award activities for the six months ended June 30, 2014 (in thousands, except per share information):

		Options Outstanding				RSUs Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value	Outstanding RSUs	Weighted Average Grant Date Fair Value
Outstanding — January 1, 2014	1,854	10,134	$ 2.82			811	$ 6.76
Increase in authorized shares	13,750						
Stock options granted	(5,468)	5,468	9.64				
RSUs granted	(1,897)					1,897	11.45
Stock options exercised	—	(893)	2.94				

RSUs vested	—					(150)	7.77
Stock options forfeited or canceled	354	(354)	4.40				
RSUs forfeited or cancelled	182	—	—			(182)	7.64
Outstanding — June 30, 2014	8,775	14,355	$ 5.38	8.41	$		