Five9, Inc.
Form 10-Q
May 13, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2015
OR

o 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: 001-36383

Five9, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	94- 3394123
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Bishop Ranch 8
4000 Executive Parkway, Suite 400
San Ramon, CA 94583
(Address of Principal Executive Offices) (Zip Code)
(925) 201-2000
(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: x No: o

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: o

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	o		Accelerated Filer	o
Non-accelerated filer	x	(Do not check if a smaller reporting Company)	Smaller Reporting Company	o

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

As of April 30, 2015, there were 49,837,098 shares of the Registrant's common stock, par value $0.001 per share, outstanding.

1

Table of Contents

FIVE9, INC.
FORM 10-Q
TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	3
PART I. FINANCIAL INFORMATION	4
ITEM 1. Financial Statements	4
Condensed Consolidated Balance Sheets (Unaudited)	4
Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)	5
Condensed Consolidated Statements of Cash Flows (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Overview	19
Key Operating and Financial Performance Metrics	20
Key Components of Our Results of Operations	22
Results of Operations for the Three Months Ended March 31, 2015 and 2014	24
Liquidity and Capital Resources	26
Critical Accounting Policies and Estimates	28
Off Balance Sheet Arrangements	29
Contractual Obligations	29
ITEM 3. Quantitative and Qualitative Disclosure about Market Risk	29
ITEM 4. Controls and Procedures	30
PART II. OTHER INFORMATION	31
ITEM 1. Legal Proceedings	31
ITEM 1A. Risk Factors	32
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	55
ITEM 3. Defaults Upon Senior Securities	55
ITEM 4. Mine Safety Disclosures	55
ITEM 5. Other Information	55
ITEM 6. Exhibits	56
SIGNATURES	57

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve substantial risks and uncertainties. These statements reflect the current views of our senior management with respect to future events and our financial performance. These forward-looking statements include statements with respect to our business, expenses, strategies, losses, growth plans, product and customer initiatives, market growth projections, and our industry. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “sho “anticipate” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These factors include the information set forth under the caption “Risk Factors” and elsewhere in this report, including the following:

- our quarterly and annual results may fluctuate significantly, may not fully reflect the underlying performance of our business and may result in decreases in the price of our common stock;
- if we are unable to attract new clients or sell additional services and functionality to our existing clients, our revenue and revenue growth will be harmed;
- our recent rapid growth may not be indicative of our future growth, and even if we continue to grow rapidly, we may fail to manage our growth effectively;
- the markets in which we participate are highly competitive, and if we do not compete effectively, our operating results could be harmed;
- if we fail to manage our technical operations infrastructure, our existing clients may experience service outages, our new clients may experience delays in the deployment of our solution and we could be subject to, among other things, claims for credits or damages;
- if our existing clients terminate their subscriptions or reduce their subscriptions and related usage, our revenues and gross margins will be harmed and we will be required to spend more money to grow our client base;
- we sell our solution to larger organizations that require longer sales and implementation cycles and often demand more configuration and integration services or customized features and functions that we may not offer, any of which could delay or prevent these sales and harm our growth rates, business and operating results;
- because a significant percentage of our revenue is derived from existing clients, downturns or upturns in new sales will not be immediately reflected in our operating results and may be difficult to discern;
- we rely on third-party telecommunications and internet service providers to provide our clients and their customers with telecommunication services and connectivity to our cloud contact center software and any failure by these service providers to provide reliable services could subject us to, among other things, claims for credits or damages;
- we have a history of losses and we may be unable to achieve or sustain profitability;
- we may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs; and
- failure to comply with laws and regulations could harm our business and our reputation.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may differ materially from what we anticipate. You should not place undue reliance on our forward-looking statements. Any forward-looking statements you read in this report reflect our views as of the date of this report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We undertake no obligation to update any forward-looking statements made in this report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law.

3

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
FIVE9, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash	$50,646	$58,289
Short-term investments	19,999	20,000
Accounts receivable, net	8,719	8,335
Prepaid expenses and other current assets	3,170	1,960
Total current assets	82,534	88,584
Property and equipment, net	12,426	12,571
Intangible assets, net	2,425	2,553
Goodwill	11,798	11,798
Other assets	863	1,428
Total assets	$110,046	$116,934
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$2,541	$4,179
Accrued and other current liabilities	8,107	7,318
Accrued federal fees	7,531	7,215
Sales tax liability	1,221	297
Notes payable	3,528	3,146
Capital leases	4,467	4,849
Deferred revenue	5,641	5,346
Total current liabilities	33,036	32,350
Revolving line of credit	12,500	12,500
Sales tax liability — less current portion	2,303	2,582
Notes payable — less current portion	21,698	22,778
Capital leases — less current portion	4,560	4,423
Other long-term liabilities	748	548
Total liabilities	74,845	75,181
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized, no shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Common stock, $0.001 par value; 450,000 shares authorized, 49,612 shares and 49,322 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	50	49
Additional paid-in capital	172,637	170,286
Accumulated other comprehensive loss	(1)	—
Accumulated deficit	(137,485)	(128,582)
Total stockholders' equity	35,201	41,753
Total liabilities and stockholders' equity	$110,046	$116,934

See accompanying notes to condensed consolidated financial statements.

Table of Contents

FIVE9, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited, in thousands, except per share data)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Revenue	$30,274	$24,274
Cost of revenue	14,778	13,148
Gross profit	15,496	11,126
Operating expenses:		
Research and development	6,038	5,225
Sales and marketing	9,931	9,022
General and administrative	7,275	6,171
Total operating expenses	23,244	20,418
Loss from operations	(7,748)	(9,292)
Other income (expense), net:		
Change in fair value of convertible preferred and common stock warrant liabilities	—	1,745
Interest expense	(1,139)	(778)
Interest income and other	2	32
Total other income (expense), net	(1,137)	999
Loss before provision for income taxes	(8,885)	(8,293)
Provision for income taxes	18	27
Net loss	$(8,903)	$(8,320)
Net loss per share:		
Basic and diluted	$(0.18)	$(1.48)
Shares used in computing net loss per share:		
Basic and diluted	49,433	5,608
Comprehensive Loss:		
Net loss	$(8,903)	$(8,320)
Other comprehensive loss:		
Change in unrealized gain/loss on short-term investments, net of tax	(1)	—
Comprehensive loss	$(8,904)	$(8,320)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

FIVE9, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net loss	$(8,903)	$(8,320)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,775	1,592
Provision for doubtful accounts	113	20
Stock-based compensation	2,235	1,196
Loss on the disposal of property and equipment	10	—
Non-cash interest expense	84	51
Changes in fair value of convertible preferred and common stock warrant liabilities	—	(1,745)
Others	(1)	—
Changes in operating assets and liabilities:		
Accounts receivable	(510)	344
Prepaid expenses and other current assets	(1,211)	(965)
Other assets	(94)	(65)
Accounts payable	(1,629)	(221)
Accrued and other current liabilities	1,123	875
Accrued federal fees and sales tax liability	960	523
Deferred revenue	286	582
Other liabilities	9	(47)
Net cash used in operating activities	(5,753)	(6,180)
Cash flows from investing activities:		
Purchases of property and equipment	(198)	(71)
Decrease (increase) in restricted cash	660	(25)
Purchase of short-term investments	(20,000)	—
Proceeds from maturity of short-term investments	20,000	—
Net cash provided by (used in) investing activities	462	(96)
Cash flows from financing activities:		
Payments for deferred offering costs	—	(805)
Proceeds from exercise of common stock options and warrants	116	556
Proceeds from notes payable	—	19,561
Repayments of notes payable	(781)	(264)
Payments of capital leases	(1,687)	(1,282)
Net cash provided by (used in) financing activities	(2,352)	17,766
Net increase (decrease) in cash and cash equivalents	(7,643)	11,490
Cash and cash equivalents:		
Beginning of period	58,289	17,748
End of period	$50,646	$29,238
Non-cash investing and financing activities:		
Equipment obtained under capital lease	$1,309	$769
Equipment purchased and unpaid at period-end	16	20
Deferred initial public offering costs incurred but unpaid at period-end	—	1,787
	—	509

Net cashless exercise of preferred stock warrants to Series A-2 convertible preferred stock		
Vesting of early exercised stock options	—	28

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

FIVE9, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Five9, Inc. (together with its wholly-owned subsidiaries, the “Company”) is a provider of cloud contact center software. The Company was incorporated in Delaware in 2001 and is headquartered in San Ramon, California. The Company has offices in Europe and Asia, which primarily provide research, development and client support services.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The significant estimates made by management affect revenue, the allowance for doubtful accounts, intangible assets, including goodwill, loss contingencies, including the Company’s accrual for federal fees and sales tax liability, accrued liabilities, stock-based compensation, fair value calculations of the convertible preferred and common stock warrant liabilities, provision for income taxes and uncertain tax positions. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation. Actual results could differ from those estimates.

Significant Accounting Policies

The Company’s significant accounting policies are disclosed in its Annual Report on Form 10-K for the year ended December 31, 2014. During the three months ended March 31, 2015, there were no changes to our significant accounting policies.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU does not change the accounting for a customer’s accounting for service contracts. A company can elect to adopt the ASU either prospectively or retrospectively. This guidance is effective for the Company beginning in the first quarter of 2016. Early adoption is permitted. The Company does not expect this guidance to have a material effect on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. Early adoption is permitted. This guidance is effective for the Company on a retrospective basis beginning in the first quarter of 2016 and is not expected to have a material effect on the Company's consolidated financial statements.

Table of Contents

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The new guidance requires management of public and private companies to evaluate whether there is substantial doubt about the entity’s ability to continue as a going concern and, if so, disclose that fact. Management will also be required to evaluate and disclose whether its plans alleviate that doubt. The standard will be effective for the Company's annual period ending December 31, 2016 and interim and annual periods thereafter. Early adoption is permitted. The Company does not expect that the requirement will have an impact on its financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company's annual and interim reporting periods beginning January 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

2. Fair Value Measurements

The Company carries short-term investments consisting of marketable securities at fair value on a recurring basis. Fair value is based on the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 — Observable inputs which include unadjusted quoted prices in active markets for identical assets.

Level 2 — Observable inputs other than Level 1 inputs, such as quoted prices for similar assets, quoted prices for identical or similar assets in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are based on management’s assumptions, including fair value measurements determined by using pricing models, discounted cash flow methodologies or similar techniques.

The fair value of assets carried at fair value was determined using the following inputs (in thousands):

	March 31, 2015	
	Total	Level 1
Assets		
Short-term investments:		
U.S. Treasury bills	$19,999	$19,999

	December 31, 2014	
	Total	Level 1
Assets		
Short-term investments:		
U.S. Treasury bills	$20,000	$20,000

3. Short-Term Investments

The Company classifies all investments with maturities of three months or less from date of purchase as cash equivalents and all investments with maturities of greater than three months from the date of purchase as short-term investments. The Company classifies its investments in marketable securities as available-for-sale at the time of purchase and as a result, classifies such investments, including securities with maturities beyond twelve months, as current assets in the accompanying condensed consolidated balance sheets.

8

Table of Contents

As of March 31, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. Treasury bills	$20,000	$—	$(1)	$19,999

As of March 31, 2015, the Company's short-term investments will mature in approximately 44 days.

4. Financial Statement Components

Accounts receivable, net consisted of the following (in thousands):

	March 31, 2015	December 31, 2014
Trade accounts receivable	$8,000	$7,482
Unbilled trade accounts receivable, net of advance client deposits	749	918
Allowance for doubtful accounts	(30)	(65)
Accounts receivable, net	$8,719	$8,335

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

	March 31, 2015	December 31, 2014
Computer and network equipment	$25,590	$24,292
Computer software	2,439	2,264
Furniture and fixtures	1,036	1,030
Leasehold improvements	611	611
Property and equipment	29,676	28,197
Accumulated depreciation and amortization	(17,250)	(15,626)
Property and equipment, net	$12,426	$12,571

Depreciation and amortization expense associated with property and equipment was $1.6 million and $1.5 million for the three months ended March 31, 2015 and 2014, respectively,

Property and equipment capitalized under capital lease obligations consist primarily of computer and network equipment and were as follows (in thousands):

	March 31, 2015	December 31, 2014
Gross	$22,328	$21,025
Less: accumulated depreciation and amortization	(11,983)	(10,609)
Total	$10,345	$10,416

Accrued and other current liabilities consisted of the following (in thousands):

	March 31, 2015	December 31, 2014
Accrued expenses	$2,245	$2,240
Accrued compensation and benefits	5,862	5,078
Accrued and other current liabilities	$8,107	$7,318

Restricted Cash

As of March 31, 2015 and December 31, 2014, the Company had $0.2 million and $0.1 million of restricted cash, respectively, under letters of credit primarily related to an insurance policy. As of December 31, 2014, the Company also had restricted cash of $0.7 million related to a letter of credit issued to the Company’s landlord with

Table of Contents

respect to its lease obligation, which was released in the three months ended March 31, 2015. Restricted cash is included in other assets on the accompanying condensed consolidated balance sheets.

5. Intangible Assets

The components of intangible assets, which were acquired in connection with the Company's acquisition of Face It, Corp., which we refer to as SoCoCare, a social engagement and mobile customer care solution provider, in October 2013, were as follows (in thousands):

	March 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$2,460	$(511)	$1,949	$2,460	$(423)	$2,037
Customer relationships	520	(151)	369	520	(125)	395
Domain names	50	(15)	35	50	(12)	38
Non-compete agreements	140	(68)	72	140	(57)	83
Total	$3,170	$(745)	$2,425	$3,170	$(617)	$2,553

Amortization expense related to intangible assets was $0.1 million for each of the three months ended March 31, 2015 and 2014. As of March 31, 2015, the expected future amortization expense for intangible assets was as follows (in thousands):

Period	Expected Future Amortization Expense
Remainder of 2015	$384
2016	503
2017	465
2018	442
2019	351
2020	280
Total	$2,425

6. Long-Term Debt

2013 Loan and Security Agreement

Prior to December 2014, the Company's revolving line of credit was under a loan and security agreement ("2013 Loan and Security Agreement") with a lender, which was entered into in March 2013 and amended in October 2013 and February 2014.

In December 2014, the Company entered into a third amendment ("Third Amendment") to the 2013 Loan and Security Agreement with the lender to amend this revolving line of credit to, among other things, (a) increase the revolving credit commitment from $12.5 million to $20.0 million, (b) extend the March 2015 maturity date to December 1, 2016 and (c) reduce the interest rate on borrowings by 0.75%, such that the per annum interest rate on outstanding borrowings will be the prime rate plus 0.50%. The Third Amendment also increases the required cash deposit with the bank by $2.0 million to $7.5 million.

The 2013 Loan and Security Agreement is collateralized by substantially all the assets of the Company. Under the terms of the amended revolving line of credit ("Revolving Credit Facility"), the balance outstanding cannot exceed the lesser of (i) $20.0 million or (ii) an amount equal to the Company's monthly recurring revenue for the three months prior multiplied by the average Dollar-Based Retention Rate over the prior twelve months, less the amount accrued for the Company's USF obligation (accrued federal fees). As of March 31, 2015, the outstanding principal balance under the Revolving Credit Facility was $12.5 million, which has been disclosed as a non-current liability, and the amount available for additional borrowings was $7.5 million.

Table of Contents

In connection with its acquisition of SoCoCare, the Company also borrowed $5.0 million under a term loan (the “Term Loan”) under the 2013 Loan and Security Agreement in October 2013. Monthly interest-only payments were due on the advance at the prime rate plus 1.50% through September 2014. Principal and interest payments are due in equal monthly installments from October 2014 through the maturity of the Term Loan in March 2017. As of March 31, 2015 and December 31, 2014, approximately $4.0 million and $4.5 million, respectively, of this Term Loan was outstanding and is included as notes payable in the condensed consolidated balance sheets. In connection with the Term Loan, the Company issued a warrant to purchase 52,054 shares of its Series D-2 convertible preferred stock at an exercise price of $1.441 per share. The issuance date fair value of this warrant of $0.1 million was recorded as a discount against the debt and is being recognized as additional interest expense over the term of the Term Loan. Upon the effectiveness of the Company’s registration statement filed with the SEC, the conversion of the Company’s preferred stock into common stock and the effectiveness of the 4:1 reverse stock split on April 3, 2014, this warrant became a warrant to purchase 13,013 shares of common stock at an exercise price of $5.76 per share.

The 2013 Loan and Security Agreement contains certain covenants, including the requirement that the Company maintain $7.5 million of cash deposited with the lender for the term of the 2013 Loan and Security Agreement. The Company was in compliance with these covenants as of March 31, 2015. The 2013 Loan and Security Agreement remains senior to other debts, including the debt issued under the 2014 Loan and Security Agreement discussed below.

2014 Loan and Security Agreement

The Company has a term loan facility of $30.0 million with a syndicate of two lenders ("Lenders"), which was entered into in February 2014 and amended in December 2014 and February 2015 (the “2014 Loan and Security Agreement”). The term loan facility is available to the Company in tranches; the first tranche for $20.0 million was advanced upon the closing of the agreement and the remaining $10.0 million is available for drawdown by the Company until February 2016 in $1.0 million increments. The Company incurred $0.4 million in debt issuance costs in connection with borrowing the first tranche in February 2014. The term loan bears interest at a variable per annum rate equal to the greater of 10% or LIBOR plus 9%. Interest is due and payable on the last business day of each month during the term of the loan commencing in February 2014. Monthly principal payments are due beginning in February 2016 based on 1/60th of the outstanding balance at that time and will continue until all remaining principal outstanding under the term loan becomes due and payable in February 2019. All amounts outstanding under this loan facility have been disclosed as part of 'Notes payable - less current portion' in the condensed consolidated balance sheet as of March 31, 2015.

The term loan is secured by substantially all the assets of the Company and is subordinate to the 2013 Loan and Security Agreement. The 2014 Loan and Security Agreement contains certain covenants and includes the occurrence of a material adverse event, as defined in the agreement and determined by the Lenders, as an event of default. As of March 31, 2015, the Company was in compliance with these covenants.

In connection with entering into the 2014 Loan and Security Agreement, the Company issued to the Lenders warrants to purchase 177,865 shares of common stock at $10.12 per share, which vest and become exercisable over a ten year term from the date of issuance, based on amounts drawn under the $30.0 million term loan facility. The exercise price of such warrants was subject to adjustment in the event of issuances of common stock by the Company at a price lower than the exercise price of such warrants any time prior to the date of effectiveness of the Company’s initial public offering ("IPO") and other corporate actions. Therefore, upon issuance the warrants were classified as a liability to the Company, which has been reclassified to additional paid-in capital upon the Company's IPO at which time these warrants were indexed to the Company's common stock. Based on the drawdown of $20.0 million in February 2014, 118,577 shares of common stock issuable under the warrants vested and are exercisable by the Lenders. The fair value of the vested warrants of $1.0 million was recorded as a discount against the debt proceeds and is being recognized as additional interest expense over the term of the loan. As of March 31, 2015, 59,288 shares of common stock issuable under the warrants pertaining to the undrawn $10.0 million remain unvested.

Promissory Note

In July 2013, the Company issued a promissory note to the Universal Service Administrative Company ("USAC") for $4.1 million as a financing arrangement for that amount of accrued federal fees. The promissory note carries a fixed

annual interest rate of 12.75% and is repayable in 42 equal monthly installments of principal and interest beginning in August 2013. As of March 31, 2015 and December 31, 2014, approximately $2.4 million and

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Table of Contents

$2.6 million, respectively, of this promissory note was outstanding and is included as notes payable in the accompanying condensed consolidated balance sheets.

As of March 31, 2015 and December 31, 2014, the Company’s outstanding debt is summarized as follows (in thousands):

	March 31, 2015	December 31, 2014
Term loan under 2014 Loan and Security Agreement	$20,000	$20,000
Term loan under 2013 Loan and Security Agreement	4,000	4,500
Promissory note to USAC	2,358	2,640
Revolving line of credit, non-current	12,500	12,500
Total debt	38,858	39,640
Less: discount	(1,132)	(1,216)
Total debt, net carrying value	$37,726	$38,424
Less: current portion of debt	(3,528)	(3,146)
Total debt, less current portion	34,198	35,278

Maturities of the Company’s outstanding debt as of March 31, 2015 are as follows (in thousands):

Period	Amount to Mature
Remainder of 2015	$2,398
2016	19,507
2017	4,620
2018	4,000
2019	8,333
Total	$38,858

7. Stockholders’ Equity

Capital Structure

The Company is authorized to issue 450,000,000 shares of common stock with a par value of $0.001 per share. As of March 31, 2015, the Company had 49,611,533 shares of common stock issued and outstanding.

The Company is also authorized to designate and issue up to 5,000,000 shares of preferred stock with a par value of $0.001 per share in one or more series without stockholder approval and to fix the rights, preferences, privileges and restrictions thereof. As of March 31, 2015, the Company had no shares of preferred stock issued and outstanding.

Common Stock Subject to Forfeiture

In connection with employment and service agreements entered into in connection with the Company’s acquisition of SoCoCare in October 2013 ("Acquisition Date"), the Company issued 118,577 shares of unvested restricted common stock, the vesting of which is contingent upon continuing employment or services and subject to forfeiture. During October 2014, 50% of such shares vested. During the three months ended March 31, 2015, in accordance with the applicable stock issuance agreement, the vesting on 37,905 shares accelerated in connection with the termination of employment of a shareholder. The remaining 21,384 shares will vest on the second anniversary of the Acquisition Date, provided the recipients thereof continue in service to the Company through such date. These shares were valued at $8.48 per share, based on the Acquisition Date fair value of the Company’s common stock. This amount is being recorded as stock-based compensation on a straight-line basis over the requisite service periods. For each of the three months ended March 31, 2015 and 2014, $0.2 million was included as stock-based compensation expense related to these shares. As of March 31, 2015 and December 31, 2014, the 21,384 shares and 59,289 shares that were subject to forfeiture were included in issued and outstanding shares of common stock, respectively.

Table of Contents

Warrants

As of March 31, 2015 and December 31, 2014, the Company had outstanding warrants to purchase 359,596 shares of common stock with a weighted-average exercise price of $5.59 per share, which expire on various dates between February 2020 and February 2024.

Common Stock Reserved for Future Issuance

Shares of common stock reserved for future issuance related to outstanding equity awards, common stock warrants, and employee equity incentive plans were as follows (in thousands):

	March 31, 2015
Stock options outstanding	6,891
Restricted stock units outstanding	1,458
Shares available for future grant under 2014 Plan	5,756
Shares available for future issuance under ESPP	1,217
Common stock warrants outstanding	360
Total shares of common stock reserved	15,682

Equity Incentive Plans

Prior to the IPO, the Company granted stock options under its Amended and Restated 2004 Equity Incentive Plan, as amended (the “2004 Plan”).

In March 2014, the Company’s board of directors and stockholders approved the 2014 Equity Incentive Plan (“2014 Plan”) and 5,300,000 shares of common stock were reserved for issuance under the 2014 Plan. In addition, on the first day of each year beginning in 2015 and ending in 2024, the 2014 Plan provides for an annual automatic increase to the shares reserved for issuance in an amount equal to 5% of the total number of shares outstanding on December 31st of the preceding calendar year or a lesser number as determined by the Company’s board of directors. Pursuant to the automatic annual increase, 2,466,124 additional shares were reserved under the 2014 Plan on January 1, 2015.

Upon the effectiveness of the 2014 Plan on April 3, 2014, no future grants will be made under the 2004 Plan. All shares reserved under the 2004 Plan became available for grant under the 2014 Plan. Any forfeited or expired shares that would otherwise return to the 2004 Plan after the IPO instead return to the 2014 Plan. As of March 31, 2015, 5,756,262 shares of common stock were available for future grant under the 2014 Plan.

The 2004 Plan and the 2014 Plan are described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Stock Options

A summary of the Company’s stock option activities during the three months ended March 31, 2015 is as follows (in thousands, except years and per share data):

	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2014	7,164	$4.34		
Options granted	—	—		
Options exercised	(209)	0.55		
Options forfeited or expired	(64)	6.35		
Outstanding as of March 31, 2015	6,891	$4.44	7.2	$15,714

The Company has computed the aggregate intrinsic value amounts disclosed in the above table based on the difference between the original exercise price of the options and the fair market value of the Company’s common stock of $5.56 as of March 31, 2015 for all in-the-money options outstanding.

Table of Contents

Restricted Stock Units

A summary of the Company's RSU activities during the three months ended March 31, 2015 is as follows (in thousands, except per share data):

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of December 31, 2014	1,370	$5.21
RSUs granted	188	4.56
RSUs vested and released	(79)	5.31
RSUs forfeited	(21)	4.99
Outstanding as of March 31, 2015	1,458	$5.13

Employee Stock Purchase Plan

The Company's 2014 Employee Stock Purchase Plan ("ESPP") became effective on April 3, 2014 and is described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The number of shares of common stock originally reserved for issuance under the ESPP was 880,000 shares, which will increase automatically each year, beginning on January 1, 2015 and continuing through January 1, 2024, by the lesser of (i) 1% of the total number of shares of the Company’s common stock outstanding on December 31 of the preceding calendar year; (ii) 1,000,000 shares of common stock (subject to adjustment to reflect any split or combination of the Company’s common stock); or (iii) such lesser number as determined by the Company’s board of directors. Pursuant to the automatic annual increase, 493,224 additional shares were reserved under the ESPP on January 1, 2015. As of March 31, 2015, 1,217,093 shares of common stock were available for future grants under the ESPP.

During the three months ended March 31, 2015, no purchases were made under the ESPP.

Stock-Based Compensation

Stock-based compensation expenses for the three months ended March 31, 2015 and 2014 are as follows (in thousands):

	Three Months Ended	
	March 31, 2015	March 31, 2014
Cost of revenue	$188	$87
Research and development	574	350
Sales and marketing	524	326
General and administrative	949	433
Total stock-based compensation	$2,235	$1,196

As of March 31, 2015, unrecognized stock-based compensation expenses by award type, net of estimated forfeitures, and their expected weighted-average recognition periods are summarized in the following table (in thousands, except years).

	Stock Option	RSU	ESPP
Unrecognized stock-based compensation expense	$9,710	$5,280	$131
Weighted-average amortization period	2.7 years	3.4 years	0.1 years

The Company recognizes stock-based compensation expense that is calculated based upon awards ultimately expected to vest and, thus, stock-based compensation expense is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. All stock-based compensation for equity awards granted to employees and non-employee directors is measured based on the grant date fair value of the award.

The Company values RSUs at the closing market price of its common stock on the date of grant. The Company estimates the fair value of each stock option and purchase right under the ESPP granted to employees on the date of grant using the Black-Scholes option-pricing model and using the assumptions noted in the below table.

Table of Contents

The weighted-average assumptions used to value stock options granted during the three months ended March 31, 2015 and 2014 were as follows:

Stock Options	Three Months Ended	
	March 31, 2015	March 31, 2014
Expected term (years)	*	6.1
Volatility	*	56%
Risk-free interest rate	*	1.8%
Dividend yield	*	—

* No stock options were granted during the three months ended March 31, 2015.

8. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period, and excludes any dilutive effects of employee stock-based awards and warrants. Diluted net income per share is computed giving effect to all potentially dilutive common shares, including common stock issuable upon exercise of stock options and warrants and vesting of restricted stock. As the Company had net losses for the three months ended March 31, 2015 and 2014, all potentially issuable common shares were determined to be anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data).

	Three Months Ended	
	March 31, 2015	March 31, 2014
Net loss	$(8,903)	$(8,320)
Weighted-average shares used in computing basic and diluted net loss per share	49,433	5,608
Basic and diluted net loss per share	$(0.18)	$(1.48)

The following securities were excluded from the calculation of diluted net loss per share attributable to common stockholders because their effect would have been anti-dilutive for the periods presented (in thousands).

	March 31, 2015	March 31, 2014
Convertible preferred stock	—	30,595
Stock options	6,891	7,345
Restricted stock units	1,458	—
ESPP	171	—
Common stock warrants	360	—
Convertible preferred stock warrants	—	525
Common stock subject to repurchase or forfeiture	21	141
Total	8,901	38,606

9. Income Taxes

The provision for income taxes for the three months ended March 31, 2015 and 2014 was approximately $18 thousand and $27 thousand, respectively. The provision for income taxes consisted primarily of foreign income taxes.

For the three months ended March 31, 2015 and 2014, the provision for income taxes differed from the statutory amount primarily due to state and foreign taxes currently payable, and the Company realized no benefit for current year losses due to maintaining a full valuation allowance against its domestic and foreign net deferred tax assets.

Table of Contents

The realization of tax benefits of deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the available objective evidence, the Company does not believe it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against the domestic and foreign net deferred tax assets as of March 31, 2015 and December 31, 2014. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance. During the three months ended March 31, 2015, there were no material changes to the total amount of unrecognized tax benefits.

10. Commitments and Contingencies

Commitments

The Company’s principal commitments consist of obligations under operating lease agreements for offices, research and development, and sales and marketing facilities, and agreements with third parties to provide co-location hosting and telecommunication usage services. These commitments as of December 31, 2014 are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and did not change during the three months ended March 31, 2015 except for the acquisition of certain additional data center and network equipment and software under multiple capital leases. As of March 31, 2015, total minimum future payment commitments under these capital leases were approximately $1.7 million, of which $0.4 million is due in 2015, with the remainder due over approximately 2.3 years thereafter.

Universal Services Fund Liability

During the third quarter of 2012, the Company determined that based on its business activities, it is classified as a telecommunications service provider for regulatory purposes and it should make direct contributions to the federal Universal Service Fund and related funds ("USF") based on revenues it receives from the resale of interstate and international telecommunications services. Previously, the Company had believed that the telecommunications services were an integral part of an information service that the Company provides via its software and had instead made indirect USF contributions via payments to its wholesale telecommunications service providers. In order to comply with the obligation to make direct contributions, the Company has made a voluntary self-disclosure to the Federal Communications Commission (“FCC”) Enforcement Bureau and has registered with the USAC, which is charged by the FCC with administering the USF. The Company has filed exemption certificates with its wholesale telecommunications service providers in order to eliminate its obligation to reimburse such wholesale telecommunications service providers for their USF contributions calculated on services sold to the Company.

The Company’s registration with USAC subjects it to assessments for unpaid USF contributions, as well as interest thereon and civil penalties, due to its late registration and past failure to recognize its obligation as a USF contributor and as an international carrier. The Company will be required to pay assessments for periods prior to the Company’s registration. While the Company is in administrative proceedings before the FCC to limit such back assessments to the period 2008 through 2012, it is possible that it will be required to pay back assessments for the period from 2003 through 2007. The Company will also face a regulatory and contractual challenge in seeking recovery or credit for its USF reimbursement payments previously made to its wholesale telecommunications service providers of up to $3.1 million as of March 31, 2015 and December 31, 2014. In 2013, the Company began remitting required contributions on a prospective basis directly to USAC.

In July 2013, the Company and USAC agreed to a financing arrangement for the undisputed portion of the unpaid USF contributions and related interest for the periods 2008 through 2012 whereby the Company issued to USAC a promissory note payable in the amount of $4.1 million. The repayment terms of the promissory note payable are disclosed in Note 6. As of March 31, 2015, the balance of the promissory note payable was $2.4 million and is included in the notes payable amounts on the condensed consolidated balance sheets. In addition to the promissory note payable, the Company had an accrued liability for the unpaid USF contributions and related interest and penalties of $5.5 million and $5.2 million included in accrued federal fees on the condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014, respectively, of which $0.8 million pertains to periods prior to 2008. For each of the three months ended March 31, 2015 and 2014, the Company recorded interest and penalty expenses of

$0.1 million as a charge to general and administrative expense, which were related to its unpaid USF obligations for the periods pr