INSTRUCTURE INC
Form 10-Q
October 31, 2018

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 September 30, 2018

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: 001-37629

Instructure, Inc.

(Exact name of registrant as specified in its charter)

Delaware	26-3505687
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6330 South 3000 East, Suite 700

Salt Lake City, UT 84121

(Address of principal executive offices, including zip code)

(800) 203-6755

(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

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 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 definition 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 Exchange Act). Yes No

As of October 26, 2018, there were 35,058,168 shares of the registrant's common stock outstanding.

Instructure, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2018

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In this Quarterly Report on Form 10-Q, “we,” “our,” “us,” “Instructure,” and the “Company” refer to Instructure, Inc. and its wholly-owned subsidiaries.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
INSTRUCTURE, INC.

Consolidated Balance Sheets

(in thousands)

(unaudited)

	September 30, 2018	December 31, 2017 *As Adjusted
Assets		
Current assets:		
Cash and cash equivalents	$111,031	$35,693
Short-term marketable securities	60,390	5,697
Accounts receivable—net of allowance of $730 and $318 at September 30, 2018 and December 31, 2017, respectively	47,510	34,312
Prepaid expenses	11,114	11,492
Deferred commissions	8,126	7,086
Other current assets	1,803	2,419
Total current assets	239,974	96,699
Property and equipment, net	27,024	23,926
Goodwill	12,354	12,354
Intangible assets, net	6,936	9,048
Noncurrent prepaid expenses	4,075	2,939
Deferred commissions, net of current portion	11,292	11,160
Other assets	526	497
Total assets	$302,181	$156,623
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$11,458	$2,892
Accrued liabilities	14,345	13,702
Deferred rent	1,303	936
Deferred revenue	136,179	99,773
Total current liabilities	163,285	117,303
Deferred revenue, net of current portion	2,494	1,889
Deferred rent, net of current portion	10,437	9,201
Other long-term liabilities	20	1,286
Total liabilities	176,236	129,679

Stockholders' equity:		
Common stock	3	3
Additional paid-in capital	385,789	250,899
Accumulated other comprehensive loss	(12)	(1)
Accumulated deficit	(259,835)	(223,957)
Total stockholders' equity	125,945	26,944
Total liabilities and stockholders' equity	$302,181	$156,623

* See Note 1 for a summary of adjustments

See accompanying notes.

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INSTRUCTURE, INC.

Consolidated Statements of Operations

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Revenue:				
Subscription and support	$49,235	$38,290	$137,539	$103,557
Professional services and other	6,004	4,913	15,754	12,663
Total revenue	55,239	43,203	153,293	116,220
Cost of revenue:				
Subscription and support	12,149	9,278	33,324	24,350
Professional services and other	3,989	3,245	11,397	8,908
Total cost of revenue	16,138	12,523	44,721	33,258
Gross profit	39,101	30,680	108,572	82,962
Operating expenses:				
Sales and marketing	25,641	21,397	73,670	58,596
Research and development	15,601	12,577	45,110	34,816
General and administrative	9,815	8,334	26,306	22,941
Total operating expenses	51,057	42,308	145,086	116,353
Loss from operations	(11,956)	(11,628)	(36,514)	(33,391)
Other income (expense):				
Interest income	761	84	1,528	199
Interest expense	(25)	—	(54)	(18)
Other income (expense), net	(177)	205	(531)	253
Total other income, net	559	289	943	434
Loss before income taxes	(11,397)	(11,339)	(35,571)	(32,957)
Income tax expense	(75)	(132)	(307)	(383)
Net loss	$(11,472)	$(11,471)	$(35,878)	$(33,340)
Net loss per common share, basic and diluted	$(0.33)	$(0.39)	$(1.06)	$(1.14)
Weighted average common shares used in computing basic and diluted net loss per common share	34,895	29,535	33,934	29,120

*See Note 1 for a summary of adjustments

See accompanying notes.

INSTRUCTURE, INC.

Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Net loss	$(11,472)	$(11,471)	$(35,878)	$(33,340)
Other comprehensive gain (loss):				
Net change in unrealized gains (losses) on marketable securities	(10)	(1)	(11)	11
Comprehensive loss	$(11,482)	$(11,472)	$(35,889)	$(33,329)

*See Note 1 for a summary of adjustments

See accompanying notes.

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INSTRUCTURE, INC.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017 *As Adjusted
Operating activities:		
Net loss	$(35,878)	$(33,340)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	6,438	4,322
Amortization of intangible assets	2,112	330
Amortization of deferred financing costs	15	24
Change in fair value of mark-to-market liabilities	(1,266)	98
Stock-based compensation	16,102	11,707
Other	(757)	(42)
Changes in assets and liabilities:		
Accounts receivable, net	(14,011)	(17,270)
Prepaid expenses and other assets	(168)	(1,868)
Deferred commissions	(1,172)	(3,833)
Accounts payable and accrued liabilities	10,241	8,197
Deferred revenue	37,011	35,692
Deferred rent	1,603	(63)
Other liabilities	—	(32)
Net cash provided by operating activities	20,270	3,922
Investing activities:		
Purchases of property and equipment	(8,888)	(10,830)
Purchases of intangible assets	—	(301)
Proceeds from sale of property and equipment	78	50
Purchases of marketable securities	(92,170)	(8,088)
Maturities of marketable securities	37,850	23,900
Net cash (used in) provided by investing activities	(63,130)	4,731
Financing activities:		
Proceeds from common stock offerings, net of offering costs	109,789	—
Proceeds from issuance of common stock from employee equity plans	8,760	5,769
Shares repurchased for tax withholdings on vesting of restricted stock	(333)	(214)
Payments for financing costs	(18)	(31)
Net cash provided by financing activities	118,198	5,524
Net increase in cash and cash equivalents	75,338	14,177
Cash and cash equivalents, beginning of period	35,693	44,539
Cash and cash equivalents, end of period	$111,031	$58,716
Supplemental cash flow disclosure:		
Cash paid for taxes	$131	$247

Non-cash investing and financing activities:		
Capital expenditures incurred but not yet paid	$ 192	$ 24

*See Note 1 for a summary of adjustments

See accompanying notes.

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INSTRUCTURE, INC.

Notes to Unaudited Consolidated Financial Statements

1. Description of Business and Basis of Presentation

Organization

Instructure provides innovative applications for learning, assessment and talent management. We enable organizations worldwide to develop, deliver, manage and track engaging academic and employee development programs. We offer our platform through a Software-as-a-Service, or SaaS, business model. We were incorporated in the State of Delaware in September 2008. We are headquartered in Salt Lake City, Utah, and have wholly-owned subsidiaries in the United Kingdom, Australia, the Netherlands, Hong Kong, Sweden, Brazil and Mexico.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) applicable to interim periods, under the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management, we have prepared the accompanying unaudited financial statements on a basis substantially consistent with the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2017, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2018. The year-end balance sheet data was derived from audited financial statements, but this Form 10-Q does not include all disclosures required under GAAP. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted under the rules and regulations of the SEC.

These interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K filed with the SEC on February 15, 2018.

Effective January 1, 2018, we adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers as discussed in Note 1. All amounts and disclosures set forth in the Form 10-Q have been updated to comply with the new standard, as indicated by the “as adjusted” column heading.

Certain prior period amounts reported in our interim and annual consolidated financial statements and notes thereto have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Such estimates, which we evaluate on an on-going basis, include allowances for doubtful accounts, useful lives for property and equipment and intangible assets, valuation of marketable securities, valuation allowances for net deferred income tax assets, valuation of stock-based compensation and common stock, standalone selling price (“SSP”) of performance obligations and the determination of the period of benefit for deferred commissions. We base our estimates on historical experience and on various other assumptions which we believe to be reasonable.

Segment Information

We operate in a single operating segment, cloud-based learning management systems. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision makers, or CODMs, which are our chief executive officer and chief financial officer, in deciding how to allocate resources and assess performance. Our CODMs evaluate our financial information and resources and assess the performance of these resources on a consolidated basis. Since we operate in one operating segment, all required financial segment information can be found on the consolidated financial statements.

Summary of Significant Accounting Policies

Except for the accounting policies for revenue recognition, trade and other receivables, and deferred commissions that were updated as a result of adopting ASU No. 2014-09, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K as of and for the year ended December 31, 2017, filed with the SEC on February 15, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Revenue Recognition

We generate revenue primarily from two main sources: (1) subscription and support revenue, which is comprised of SaaS fees from customers accessing our learning, assessment and talent management systems and from customers purchasing additional support beyond the standard support that is included in the basic SaaS fees; and (2) related professional services revenue, which is comprised of training, implementation services and other types of professional services. Revenue is recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determined revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

The following describes the nature of our primary types of revenue and the revenue recognition policies and significant payment terms as they pertain to the types of transactions we enter into with our customers.

Subscription and Support

Subscription and support revenue is derived from fees from customers to access our learning, assessment and talent management systems and support beyond the standard support that is included with all subscriptions. The terms of our subscriptions do not provide customers the right to take possession of the software. Subscription and support revenue is generally recognized on a ratable basis over the contract term. Payments from customers are primarily due annually in advance. Unearned subscription and support revenue is included in deferred revenue.

Professional Services and Other

Professional services revenue is derived from implementation, training, and consulting services. Our professional services are typically considered distinct from the related subscription services as the promise to transfer the subscription can be fulfilled independently from the promise to deliver the professional services (i.e., customer receives standalone functionality from the subscription and the customer obtains the intended benefit of the subscription without the professional services). Professional services revenue is typically recognized over time as the services are rendered, using an efforts-expended (labor hours) input method.

Contracts with Multiple Performance Obligations

Many of our contracts with customers contain multiple performance obligations. We account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives by reviewing our significant pricing practices, including discounting practices, the size and volume of our transactions, the customer type, price lists, our pricing strategy, and historical stand-alone sales. SSP is

analyzed on a periodic basis to identify if we have experienced significant changes in our selling prices.

Trade and Other Receivables

Accounts receivable, net is comprised of trade receivables that are recorded at the invoice amount, net of an allowance for doubtful accounts, and other receivables, which represents unbilled receivables related to subscription and professional services contracts. Unbilled receivable balances as of September 30, 2018 and December 31, 2017 were $7,000,000 and $4,177,000, respectively.

Standard payment terms to customers range from 30 to 90 days; however, payment terms and conditions in our customer contracts may vary. In some cases, customers prepay for products and services in advance of our delivery of the related products or services; in other cases, payment is due as services are performed or in arrears following the delivery of the related products or services. The unbilled receivable primarily relates to revenue recognized when transferred services are more than amounts billable to customers.

Deferred Commissions

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be generally four years. We determined the period of benefit by taking into consideration our customer contracts, our technology and other factors. Amortization of deferred commissions is included in sales and marketing expenses in the accompanying consolidated statements of operations.

Recent Accounting Pronouncements

Adopted accounting pronouncements

In October 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". This standard requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. The new standard must be adopted using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings in the period of adoption. This standard is effective for annual reporting periods beginning after December 15, 2017. We adopted the new standard as of January 1, 2018 and it did not have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("Topic 606"). Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605"), and requires the recognition of revenue as promised goods or services are transferred to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, we refer to Topic 606 and Subtopic 340-40 as the "new standard".

We adopted the new standard as of January 1, 2018, utilizing the full retrospective method of transition. As a result, we recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of equity on January 1, 2016. We have changed our accounting policy for revenue recognition as detailed above. The details of the significant changes and quantitative impact of the changes are disclosed below.

We applied Topic 606 retrospectively using the following practical expedients in paragraph 606-10-65-1(f). We do not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when we expect to recognize that amount as revenue for all reporting periods presented before the date of the initial application – i.e. January 1, 2018. Further, we do not retrospectively restate contracts modified before the beginning of the earliest reporting period presented but reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented.

The primary impact of adopting the new standard related to the deferral of incremental commission costs to obtain customer contracts and the removal of the contingent revenue limitation. We previously expensed sales commission costs as incurred. Under the new standard, we capitalize and amortize these costs over a period of benefit that we have determined to be generally four years. We were also previously limiting the amount of revenue recognized for delivered elements to the amount that was not contingent on the future delivery of products or services, or subject to

our future performance. Under the new standard, there is no requirement to limit the allocated transaction price to non-contingent amounts, therefore, we record unbilled revenue when transferred services are more than amounts billable to customers.

Impacts on Financial Statements

The following tables summarize the impacts of Topic 606 adoption on our consolidated financial statements on the previously reported periods. Select consolidated balance sheet line items, which reflect the adoption of Topic 606, are as follows (in thousands):

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	December 31, 2017		
	As previously reported	Adjustments	As adjusted
Assets			
Accounts receivable—net of allowance	$30,797	$ 3,515	$34,312
Deferred commissions	—	7,086	7,086
Deferred commissions, net of current portion	—	11,160	11,160
Other assets	1,045	(548)	497
Liabilities			
Deferred revenue	99,086	687	99,773
Deferred revenue, net of current portion	3,950	(2,061)	1,889

Select unaudited consolidated statement of operations line items, which reflect the adoption of Topic 606, are as follows (in thousands):

	Three months ended September 30, 2017		
	As previously reported	Adjustments	As adjusted
Revenue:			
Subscription and support	$37,427	$ 863	$38,290
Professional services and other	5,521	(608)	4,913
Total revenue	42,948	255	43,203
Cost of revenue:			
Professional services and other	3,192	53	3,245
Gross profit	30,478	202	30,680
Operating expenses:			
Sales and marketing	22,129	(732)	21,397
Loss before income taxes	(12,302)	963	(11,339)
Income tax expense	(71)	(61)	(132)
Net loss	(12,373)	902	(11,471)
Net loss per common share, basic and diluted	(0.42)	0.03	(0.39)

	Nine months ended September 30, 2017		
	As previously reported	Adjustments	As adjusted
Revenue:			
Subscription and support	$100,590	$ 2,967	$103,557
Professional services and other	14,381	(1,718)	12,663
Total revenue	114,971	1,249	116,220
Cost of revenue:			

Professional services and other	8,729	179	8,908
Gross profit	81,892	1,070	82,962
Operating expenses:			
Sales and marketing	62,429	(3,833)	58,596
Loss before income taxes	(37,893)	4,936	(32,957)
Income tax expense	(207)	(176)	(383)
Net loss	(38,100)	4,760	(33,340)
Net loss per common share, basic and diluted	(1.31)	0.17	(1.14)

Select unaudited consolidated statement of cash flows line items, which reflect the adoption of Topic 606, are as follows (in thousands):

	Nine months ended September 30, 2017		
	As previously reported	Adjustments	As Adjusted
Cash flows from operating activities:			
Net loss	$(38,100)	$ 4,760	$(33,340)
Accounts receivable, net	(17,620)	350	(17,270)
Prepaid expenses and other assets	(2,229)	361	(1,868)
Deferred commissions	—	(3,833)	(3,833)
Deferred revenue	37,331	(1,639)	35,692
Net cash used in operating activities	3,922	—	3,922

Issued accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases, requiring recognition of a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. Long-term leases will continue to be classified as either operating or finance leases in the financial statements. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The updated standard is effective for us beginning in the first quarter of 2019. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

2. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of the diluted net loss per share calculation, options to purchase common stock, common stock warrants and restricted stock units are considered to be common stock equivalents.

A reconciliation of the denominator used in the calculation of basic and diluted loss per share is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$(11,472)	$(11,471)	$(35,878)	$(33,340)
Denominator:				
Total weighted average common shares outstanding—basic	34,895	29,535	33,934	29,120

Dilutive effect of share equivalents resulting from stock options, restricted stock units, common stock warrants and common stock subject to repurchase	—	—	—	—
Weighted average common shares outstanding-diluted	34,895	29,535	33,934	29,120
Net loss per common share, basic and diluted	$(0.33)	$(0.39)	$(1.06)	$(1.14)

For all periods presented, we incurred net losses and, therefore, the effect of our outstanding stock options, restricted stock units and common stock warrants was not included in the calculation of diluted loss per share as the effect would be anti-dilutive. The following table contains share totals with a potentially dilutive impact (in thousands):

	As of September 30,	
	2018	2017
Options to purchase common stock	1,378	2,489
Common stock warrants	—	17
Restricted stock units	1,611	1,566
Total	2,989	4,072

3. Property and Equipment

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

	September 30, 2018	December 31, 2017
Computer and office equipment	$ 5,964	$ 5,726
Purchased software	1,071	1,071
Capitalized software development costs	20,285	14,755
Furniture and fixtures	4,522	3,924
Leasehold improvements and other	15,337	13,379
Total property and equipment	47,179	38,855
Less accumulated depreciation and amortization	(20,155)	(14,929)
Total	$ 27,024	$ 23,926

Accumulated amortization for capitalized software development costs was $7,775,000 and $4,570,000 at September 30, 2018 and December 31, 2017, respectively. Amortization expense for capitalized software development costs was $1,217,000 and $639,000 for the three months ended September 30, 2018 and 2017, respectively, and $3,205,000 and $1,645,000 for the nine months ended September 30, 2018 and 2017, respectively. Amortization expense for capitalized software development costs is recorded within cost of revenue on the consolidated statements of operations.

4. Goodwill and Intangible Assets

Goodwill was $12,354,000 as of September 30, 2018 and December 31, 2017.

Intangible assets consisted of the following (in thousands):

	Average Remaining Useful Life	September 30, 2018	December 31, 2017
Domain names	8 Months	$ 1,268	$ 1,268
Trademarks	59 Months	120	120
Software	10 Months	620	620
Capitalized learning content	37 Months	400	400
Trade names	26 Months	320	320
Developed technology	38 Months	5,320	5,320
Customer relationships	26 Months	2,910	2,910
Accumulated amortization		(4,022)	(1,910)
Total		$ 6,936	$ 9,048

Amortization expense for intangible assets was $673,000 and $71,000 for the three months ended September 30, 2018 and 2017, respectively, and $2,112,000 and $330,000 for the nine months ended September 30, 2018 and 2017, respectively.

Based on the recorded intangible assets at September 30, 2018, estimated amortization expense is expected to be as follows (in thousands):

Years Ending December 31,	Amortization Expense
Remainder of 2018	$ 674
2019	2,626
2020	2,386
2021	1,250
2022	—
Total	$ 6,936

5. Revenue

Disaggregation of Revenue

Revenue by geographic region, based on the physical location of the customer, is (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
United States	$44,790	$36,613	$124,586	$100,339
Foreign	10,449	6,590	28,707	15,881
Total revenue	$55,239	$43,203	$153,293	$116,220
Percentage of revenue generated outside of the United States	19 %	15 %	19 %	14 %

* See Note 1 for a summary of adjustments

Deferred Revenue and Performance Obligations

During the three months ended September 30, 2018, 75% to 85% of revenue recognized was included in our deferred revenue balance at the beginning of the period. During the nine months ended September 30, 2018, 55% to 65% of revenue recognized was included in our deferred revenue balance at the beginning of the period.

Transaction Price Allocated to the Remaining Performance Obligations

As of September 30, 2018, approximately $470 million of revenue is expected to be recognized from remaining performance obligations. We expect to recognize revenue on approximately 69% of these remaining performance obligations over the next 24 months, with the balance recognized thereafter.

6. Deferred Commissions

Deferred commissions primarily consist of sales commissions that are capitalized as incremental contract origination costs and were $19,418,000 and $18,246,000 as of September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and 2017, amortization expense for deferred commissions was $2,787,000 and $1,956,000, respectively, and there were no impairments of deferred commissions. For the nine months ended September 30, 2018 and 2017, amortization expense for deferred commissions was $7,331,000 and $5,191,000, respectively, and there were no impairments of deferred commissions.

7. Marketable Securities

Our investment policy is consistent with the definition of available-for-sale securities. We do not buy and hold securities principally for the purpose of selling them in the near future nor do we intend to hold securities to maturity. Rather, our policy is focused on the preservation of capital, liquidity and return. From time to time, we may sell certain securities but the objectives are generally not to generate profits on short-term differences in price.

The following table summarizes, by major security type, our assets that are measured at fair value on a recurring basis (in thousands):

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$34,285	$ —	$ (3)	$ 34,282
Government treasury bills	26,116	—	(8)	26,108
	$60,401	$ —	$ (11)	$ 60,390

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$5,698	$ —	$ (1)	$ 5,697
	$5,698	$ —	$ (1)	$ 5,697

There were no gross realized gains or losses from the sale or maturity of marketable securities during the nine months ended September 30, 2018 and 2017.

During the nine months ended September 30, 2018, we recognized gross interest income on securities of $499,000. Interest income was inclusive of accretion income of $432,000 and offset by amortization expense on securities of $36,000 during the nine months ended September 30, 2018, and reported net within interest income on the consolidated statements of operations.

During the nine months ended September 30, 2017, we recognized gross interest income on securities of $125,000. Interest income was offset by amortization expense on securities of $9,000 during the nine months ended September 30, 2017, and reported net within interest income on the consolidated statements of operations.

The estimated fair value of investments by contractual maturity is as follows (in thousands):

	September 30, 2018	December 31, 2017
Due within one year	$ 60,390	$ 5,697
Total	$ 60,390	$ 5,697

8. Stockholders' Equity and Stock-Based Compensation

Common Stock

As of September 30, 2018 and December 31, 2017, there were 200,000,000 shares of common stock authorized. As of September 30, 2018 and December 31, 2017, there were 35,053,594 and 30,860,241 shares issued and outstanding, respectively. Each share of common stock has the right to one vote on all matters submitted to a vote of stockholders. The holders of common stock are also entitled to receive dividends whenever funds are legally available and if declared by the board of directors, subject to prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid on the common stock through September 30, 2018.

On February 15, 2018, we entered into an underwriting agreement (the "Underwriting Agreement") with Morgan Stanley & Co. LLC and Credit Suisse Securities (USA) LLC (collectively, the "Underwriters"), relating to the issuance and sale (the "Offering") of 2,500,000 shares of our common stock, par value $0.0001 per share. The price to the public in the Offering was $39.50 per share, and the Underwriters have purchased the shares from us pursuant to the Underwriting Agreement at a price of $38.315 per share. In addition to the sale of 2,500,000 shares, the Underwriters exercised a 30-day option to purchase an additional 375,000 shares of our common stock. All of the shares in the offering were sold by us and the net proceeds to us from this Offering were $109.8 million, after deducting underwriting discounts and commissions and other offering expenses payable by us.

Employee Equity Plans

Our 2015 Equity Incentive Plan (the “2015 Plan”) serves as the successor to our 2010 Equity Incentive Plan (the “2010 Plan”). Accordingly, no shares are available for issuance under the 2010 Plan; however, any outstanding options granted under the 2010 Plan will remain outstanding and subject to the terms of that plan until exercised, terminated or expired by their terms. As of September 30, 2018, options to purchase 950,474 shares of common stock remained outstanding under the 2010 Plan. Pursuant to the terms of the 2015 Plan, the share reserve automatically increased by 1,388,709 shares in January 2018. As of September 30, 2018, we had 2,718,483 shares of common stock available for future grants under the 2015 Plan.

Additionally, as part of our acquisition of Practice XYZ, Inc. (“Practice”) we assumed Practice’s 2014 Equity Incentive Plan (the “2014 Plan”). No shares are available for issuance under the 2014 Plan; however, any outstanding options granted under the 2014 Plan will remain outstanding and subject to the terms of that plan until exercised, terminated or expired by their terms. As of September 30, 2018, options to purchase 1,093 shares of common stock remained outstanding under the 2014 Plan.

We also have a 2015 Employee Stock Purchase Plan (the “ESPP”). The ESPP allows eligible employees to purchase shares of our common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. Our board of directors approves the ESPP offerings. The offerings need not be identical, but each offering may not exceed 27 months and may specify one or more shorter purchase periods within the offering. Pursuant to the terms of the ESPP, the share reserve increased by 308,602 shares in January 2018. As of September 30, 2018, 556,089 shares of common stock were available for issuance under the ESPP.

The following two tables show stock-based compensation expense by award type and where the stock-based compensation expense was recorded in our consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Options	$751	$939	$2,177	$3,123
Restricted stock units	4,281	2,812	12,212	