Zendesk, Inc.
Form 10-Q
August 07, 2017
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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 June 30, 2017
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, CA	94103
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (415) 418-7506

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
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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company)	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 x
As of July 31, 2017 there were 100,498,735 shares of the registrant's common stock outstanding.

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PART II — OTHER INFORMATION

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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 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 wo 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, 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 products, and our ability to optimize the pricing for such products;
- the evolution of technology affecting our products, 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;
- 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;
- our ability to introduce and market new products and to integrate such products into our infrastructure;
- 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;
- our ability to securely maintain customer data;
- our ability to maintain and enhance our brand; and
- the increased expenses and administrative workload associated with being a public company.

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.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
ZENDESK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and shares)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 102,775	$ 93,677
Marketable securities	137,489	131,190
Accounts receivable, net of allowance for doubtful accounts of $919 and $1,269 as of June 30, 2017 and December 31, 2016, respectively	41,311	37,343
Prepaid expenses and other current assets	21,141	17,608
Total current assets	302,716	279,818
Marketable securities, noncurrent	68,502	75,168
Property and equipment, net	61,753	62,731
Goodwill and intangible assets, net	68,762	53,296
Other assets	7,909	4,272
Total assets	$ 509,642	$ 475,285
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 8,161	$ 4,555
Accrued liabilities	19,935	19,106
Accrued compensation and related benefits	21,982	20,281
Deferred revenue	141,345	123,276
Total current liabilities	191,423	167,218
Deferred revenue, noncurrent	1,773	1,257
Other liabilities	8,477	7,382
Total liabilities	201,673	175,857
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	1,007	971
Additional paid-in capital	686,336	624,026
Accumulated other comprehensive loss	(2,474)	(5,197)
Accumulated deficit	(376,248)	(319,720)
Treasury stock, at cost (0.5 million shares as of June 30, 2017 and December 31, 2016)	(652)	(652)
Total stockholders' equity	307,969	299,428
Total liabilities and stockholders' equity	$ 509,642	$ 475,285

See Notes to Condensed Consolidated Financial Statements.

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ZENDESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$101,273	$74,200	$194,280	$142,659
Cost of revenue (1)	30,663	22,936	58,770	44,452
Gross profit	70,610	51,264	135,510	98,207
Operating expenses (1):				
Research and development	28,698	22,134	55,154	43,731
Sales and marketing	52,628	39,350	99,929	75,522
General and administrative	19,788	16,076	38,105	31,937
Total operating expenses	101,114	77,560	193,188	151,190
Operating loss	(30,504)	(26,296)	(57,678)	(52,983)
Other income, net	508	134	726	64
Loss before provision for (benefit from) income taxes	(29,996)	(26,162)	(56,952)	(52,919)
Provision for (benefit from) income taxes	(690)	92	(652)	506
Net loss	$(29,306)	$(26,254)	$(56,300)	$(53,425)
Net loss per share, basic and diluted	$(0.29)	$(0.28)	$(0.57)	$(0.58)
Weighted-average shares used to compute net loss per share, basic and diluted	99,506	92,174	98,545	91,351

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$2,156	$1,802	$4,260	$3,435
Research and development	7,584	6,749	14,497	13,376
Sales and marketing	6,013	5,684	11,646	11,123
General and administrative	5,321	4,410	9,884	8,407

See Notes to Condensed Consolidated Financial Statements.

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ZENDESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(29,306)	$(26,254)	$(56,300)	$(53,425)
Other comprehensive gain (loss), before tax:				
Net change in unrealized gain (loss) on available-for-sale investments	13	(14)	132	116
Foreign currency translation gain	249	64	824	797
Net change in unrealized loss on derivative instruments	1,822	(2,886)	3,348	(277)
Other comprehensive gain (loss), before tax	2,084	(2,836)	4,304	636
Tax effect	(766)	(234)	(1,582)	(234)
Other comprehensive gain (loss), net of tax	1,318	(3,070)	2,722	402
Comprehensive loss	$(27,988)	$(29,324)	$(53,578)	$(53,023)

See Notes to Condensed Consolidated Financial Statements.

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ZENDESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	$(56,300)	$(53,425)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	16,132	13,147
Share-based compensation	40,287	36,341
Other	359	599
Changes in operating assets and liabilities:		
Accounts receivable	(4,619)	(2,427)
Prepaid expenses and other current assets	(3,015)	(7,860)
Other assets and liabilities	(3,594)	(380)
Accounts payable	3,809	(579)
Accrued liabilities	4,188	1,803
Accrued compensation and related benefits	1,394	1,098
Deferred revenue	18,584	16,243
Net cash provided by operating activities	17,225	4,560
Cash flows from investing activities		
Purchases of property and equipment	(9,276)	(8,410)
Internal-use software development costs	(3,315)	(2,773)
Purchases of marketable securities	(82,325)	(136,171)
Proceeds from maturities of marketable securities	61,686	16,476
Proceeds from sale of marketable securities	20,743	13,631
Cash paid for the acquisition of Outbound, net of cash acquired	(16,470)	—
Net cash used in investing activities	(28,957)	(117,247)
Cash flows from financing activities		
Proceeds from exercise of employee stock options	15,175	9,387
Proceeds from employee stock purchase plan	7,139	5,672
Taxes paid related to net share settlement of share-based awards	(1,763)	(345)
Principal payment on debt	—	(323)
Net cash provided by financing activities	20,551	14,391
Effect of exchange rate changes on cash and cash equivalents	279	106
Net increase (decrease) in cash and cash equivalents	9,098	(98,190)
Cash and cash equivalents at beginning of period	93,677	216,226
Cash and cash equivalents at end of period	$102,775	$118,036
Supplemental cash flow data:		
Cash paid for income taxes and interest	$756	$437
Non-cash investing and financing activities:		
Vesting of early exercised stock options	$224	$374
Balance of property and equipment in accounts payable and accrued expenses	$3,036	$1,552
Share-based compensation capitalized in internal-use software development costs	$1,306	$1,075

See Notes to Condensed Consolidated Financial Statements.

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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.

We are a software development company that provides software as a service, or SaaS, products that are intended to help organizations and their customers build better relationships. With our origins in customer service, we have evolved our offerings over time to a family of products that work together to help organizations understand their customers, improve communications, and engage where and when it's needed most. Our product family is built upon a modern architecture that enables us and our customers to rapidly innovate, adapt our technology in novel ways, and easily integrate with other products and applications.

References to Zendesk, the "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 audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 27, 2017. There have been no changes to our significant accounting policies described in the Annual Report on Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes, except as described below.

In the first quarter of 2017, we changed our accounting policy for share-based compensation to recognize forfeitures as they occur, as permitted by Accounting Standards Update, or ASU, 2016-09. Refer to Recently Adopted Accounting Pronouncements below for a more detailed discussion.

The consolidated balance sheet as of December 31, 2016 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 our financial position, results of operations, 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, 2017.

Use of Estimates

The preparation of our 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, acquired intangible assets, goodwill and unrecognized tax benefits, the useful lives of acquired intangible assets and property and equipment, the capitalization and estimated useful life of capitalized internal-use software, and financial forecasts used in currency hedging.

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

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Concentrations of Risk

As of June 30, 2017, no customers represented 10% or greater of our total accounts receivable balance. There were no customers that individually exceeded 10% of our revenue during the three and six months ended June 30, 2017 or 2016.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or the FASB, issued new revenue guidance that provides principles for recognizing revenue to which an entity expects to be entitled for the transfer of promised goods or services to customers. The guidance also requires the deferral of incremental costs to acquire contracts with customers. As currently issued and amended, the new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. The guidance may be applied retrospectively to each prior period presented (full retrospective method), or with the cumulative effect recognized as of the date of initial adoption (modified retrospective method).

We currently intend to adopt using the full retrospective method; however, our decision has not been finalized. We have completed a preliminary assessment to determine the effect of adoption on our existing revenue arrangements and are analyzing specific transactions to confirm those conclusions. We have also begun testing our new revenue recognition systems. As a result of adoption, we also expect to capitalize a significant portion of our sales commissions and other incremental costs to acquire contracts, which we historically expensed as incurred, which will result in an increase in deferred costs recognized on our balance sheet. We have not yet concluded the useful life of our capitalized costs, which will affect the classification and magnitude of the deferred costs at each reporting period. We continue to quantify the total effect of adoption on our consolidated financial statements. To meet the incremental disclosure requirements of the new guidance, we are also developing processes that will enable our ability to disclose backlog.

In February 2016, the FASB issued ASU 2016-02, regarding Accounting Standards Codification, or ASC, Topic 842 “Leases.” This new standard requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets and eliminates certain real estate-specific provisions. The new guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the effect of this standard on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, regarding ASC Topic 718 “Compensation - Stock Compensation.” This amendment changes certain aspects of accounting for share-based awards to employees, including the recognition of income tax effects of awards when the awards vest or are settled, requirements on net share settlement to cover tax withholding, and accounting for forfeitures. We adopted the standard in the first quarter of 2017.

As required by the new standard, we now recognize excess tax effects from share-based awards as a component of provision for income taxes in our statement of operations when awards vest or are settled. Upon adoption, we recorded a deferred tax asset of $52.8 million to reflect, on a modified retrospective basis, the previously unrecognized excess tax benefits; however, the deferred tax asset was fully offset by a valuation allowance, resulting in no impact to our consolidated financial statements. In our statement of cash flows, we no longer classify excess tax benefits as a reduction from operating cash flows. This change was made prospectively beginning with the quarter ended March 31, 2017.

We also elected to account for forfeitures as they occur; therefore, share-based compensation expense for the three and six months ended June 30, 2017 have been calculated based on actual forfeitures in our consolidated statement of operations, rather than our previous approach which was net of estimated forfeitures. The cumulative-effect adjustment of this change on a modified retrospective basis was not material. Share-based compensation expense for the three and six months ended June 30, 2016 was recorded net of estimated forfeitures.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory,” which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new guidance is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual reporting period. The new standard must be adopted using a modified retrospective basis, with the cumulative effect recognized as of the date of adoption. We adopted the standard in the first quarter of 2017. Upon adoption, we recorded a deferred tax asset of $6.2 million to reflect the previously unrecognized tax benefits; however, the deferred tax asset was fully offset by a valuation allowance, resulting in no impact to our consolidated financial statements.

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In May 2017, the FASB issued ASU 2017-09, regarding ASC Topic 718 “Compensation - Stock Compensation: Scope of Modification Accounting.” This amendment clarified what changes to terms or conditions of share-based awards require an entity to apply modification accounting. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We early adopted this standard in the second quarter of 2017 on a prospective basis, as permitted by the standard. The adoption did not have and is not expected to have a material effect on our consolidated financial statements.

Note 2. Business Combination

On April 27, 2017, we completed the acquisition of Outbound Solutions, Inc., or Outbound, a provider of software that enables companies to deliver intelligent, behavior-based messages across multiple channels. We acquired Outbound for purchase consideration of $16.6 million in cash.

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 that remain preliminary relate to the fair values of certain assets and liabilities acquired and residual goodwill. The total purchase consideration was allocated to the assets acquired and liabilities assumed as set forth below (in thousands). The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to expected growth from the expansion of the scope of and market opportunity for our products. Goodwill is not deductible for income tax purposes. Goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present.

Net tangible assets acquired	$96	
Net deferred tax liability recognized	(492	)
Identifiable intangible assets:		
Developed technology	3,200	
Customer relationships	410	
Goodwill	13,350	
Total purchase price	$16,564	

The developed technology and customer relationship intangible assets were assigned useful lives of 6.5 and 3.5 years, respectively.

From the date of the acquisition, the results of operations of Outbound have been included in and are immaterial to our consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results of Outbound are not material to our consolidated financial statements in any period presented.

Note 3. Financial Instruments

Investments

The following tables present information about our financial assets measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 based on the three-tier fair value hierarchy (in thousands):

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	Fair Value Measurement at June 30, 2017		
	Level 1	Level 2	Total
Description			
Corporate bonds	$—	$134,134	$134,134
Asset-backed securities	—	29,303	29,303
U.S. treasury securities	—	25,449	25,449
Commercial paper	—	11,120	11,120
Agency securities	—	8,482	8,482
Money market funds	2,768	—	2,768
Total	$2,768	$208,488	$211,256
Included in cash and cash equivalents			$5,265
Included in marketable securities			$205,991

	Fair Value Measurement at December 31, 2016		
	Level 1	Level 2	Total
Description			
Corporate bonds	$—	$124,930	$124,930
Asset-backed securities	—	32,567	32,567
U.S. treasury securities	—	30,585	30,585
Commercial paper	—	9,787	9,787
Agency securities	—	8,489	8,489
Money market funds	3,545	$—	$3,545
Total	$3,545	$206,358	$209,903
Included in cash and cash equivalents			$3,545
Included in marketable securities			$206,358

As of June 30, 2017 and December 31, 2016, there were no securities within Level 3 of the fair value hierarchy. There were no transfers between fair value measurement levels during the three and six months ended June 30, 2017. Gross unrealized gains and losses for cash equivalents and marketable securities as of June 30, 2017 and December 31, 2016 were not material. As of June 30, 2017 and December 31, 2016, there were no securities that were in an unrealized loss position for more than 12 months.

The following table classifies our marketable securities by contractual maturity as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Due in one year or less	$137,489	$131,190
Due after one year	68,502	75,168
Total	$205,991	$206,358

For our other financial instruments, including accounts receivable, accounts payable, and other current liabilities, the carrying amounts approximate their fair values due to the relatively short maturity of these balances.

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Derivative Instruments and Hedging

Our foreign currency exposures typically arise from expenditures associated with foreign operations and sales in foreign currencies for subscriptions to our products. In September 2015, we implemented a hedging program to mitigate the effect of foreign currency fluctuations on our future cash flows and earnings. We enter into foreign currency forward contracts with certain financial institutions and designate those contracts as cash flow hedges. Our foreign currency forward contracts generally have maturities of 15 months or less. As of June 30, 2017, the balance of accumulated other comprehensive loss included an unrecognized net gain of $0.4 million related to the effective portion of changes in the fair value of foreign currency forward contracts designated as cash flow hedges. We expect to reclassify a net gain of $0.5 million into earnings over the next 12 months associated with our cash flow hedges.

The following tables present information about our derivative instruments on our consolidated balance sheets as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	$1,376	Accrued liabilities	$1,507
Total		$1,376		$1,507

	December 31, 2016			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	$ 868	Accrued liabilities	$4,280
Total		$ 868		$4,280

Our foreign currency forward contracts had a total notional value of $90.1 million and $79.6 million as of June 30, 2017 and December 31, 2016, respectively. We have a master netting arrangement with each of our counterparties, which permits net settlement of multiple, separate derivative contracts with a single payment. We may also be required to exchange cash collateral with certain of our counterparties on a regular basis. ASC 815 permits companies to present the fair value of derivative instruments on a net basis according to master netting arrangements. We have elected to present our derivative instruments on a gross basis in our consolidated financial statements. As of June 30, 2017 and December 31, 2016, our balances of cash collateral posted with counterparties were none and $1.1 million, respectively.

The following table presents information about our derivative instruments on the statement of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

		Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
Hedging Instrument	Location of Loss Reclassified into Earnings	Gain Recognized in AOCI	Loss Reclassified from AOCI into Earnings	Gain Recognized in AOCI	Loss Reclassified from AOCI into Earnings
		$1,495	$ (327)	$2,488	$ (860)

Foreign currency forward contracts	Revenue, cost of revenue, operating expenses				
Total		$1,495	$ (327)	$2,488	$ (860)

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Hedging Instrument	Location of Gain (Loss) Reclassified into Earnings	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
		Loss Recognized in AOCI	Gain Reclassified from AOCI into Earnings	Loss Recognized in AOCI	Loss Reclassified from AOCI into Earnings
Foreign currency forward contracts	Revenue, cost of revenue, operating expenses	$(2,772)	$ 114	$(425)	$ (148)
Total		$(2,772)	$ 114	$(425)	$