COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP
Form 6-K
December 02, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For November 22, 2005

(Commission File No. 1-31317)

Companhia de Saneamento Básico do Estado de São Paulo - SABESP
(Exact name of registrant as specified in its charter)

Basic Sanitation Company of the State of Sao Paulo - SABESP
(Translation of Registrant's name into English)

Rua Costa Carvalho, 300
São Paulo, S.P., 05429-900
Federative Republic of Brazil
(Address of Regristrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)__.
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)__.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

FEDERAL GOVERNMENT SERVICE
CVM BRAZILIAN SECURITIES AND EXCHANGE COMMISSION
ITR QUARTERLY INFORMATION **Base Date 09/30/2005** **Corporate Legislation**
COMMERCIAL, INDUSTRIAL AND OTHER COMPANIES

REGISTRATION WITH THE CVM DOES NOT IMPLY ANY ANALYSIS OF THE COMPANY. COMPANY MANAGEMENT IS RESPONSIBLE FOR THE ACCURACY OF THE INFORMATION PROVIDED.

01.01 - IDENTIFICATION

1 - CVM CODE	2 - COMPANY'S NAME	3 -CNPJ
01444-3	**CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**	43.776.517/0001-80
4 - NIRE 35300016831		

01.02 - HEAD-OFFICE

1 - FULL ADDRESS Rua Costa Carvalho, 300			2 - BOROUGH OR DISTRICT Pinheiros	
3 - ZIP CODE 05429-900	4 - CITY São Paulo			5 - UF SP
6 - AREA CODE 11	7 - TELEPHONE 3388-8000	8 - TELEPHONE 3388-8200	9 - TELEPHONE 3388-8201	10 - TELEX
11 - AREA CODE 11	12 - FAX 3813-0254	13 - FAX -	14 - FAX -	
15 - E-MAIL sabesp@sabesp.com.br				

01.03 - INVESTOR RELATIONS OFFICER (Company's Mail Address)

1 NAME Rui de Britto Álvares Affonso				
2 - FULL ADDRESS Rua Costa Carvalho, 300			3 - BOROUGH OR DISTRICT Pinheiros	
4 - ZIP CODE 05429-900	5 - CITY São Paulo			6 - UF SP
7 - AREA CODE 11	8 - TELEPHONE 3388-8247	9 - TELEPHONE -	10 - TELEPHONE	11 - TELEX -
12 - AREA CODE 11	13 - FAX 3815-4465	14 - FAX -	15 - FAX	

			-	
16 - E-MAIL raffonso@sabesp.com.br				

01.04 - GENERAL INFORMATION/INDEPENDENT ACCOUNTANT

CURRENT YEAR		CURRENT QUARTER			PRIOR QUARTER		
1 - BEGINNING	2 END	3 - NUMBER	4 - BEGINNING	5 - END	6 - NUMBER	7 - BEGINNING	8 - END
01/01/2005	12/31/2005	3	07/01/2005	09/30/2005	2	04/01/2005	06/30/2005
9 INDEPENDENT ACCOUNTANT Deloitte Touche Tohmatsu Auditores Independentes						10 - CVM CODE 00385-9	
11 PARTNER RESPONSIBLE Marco Antonio Brandão Simurro						12 INDIVIDUAL TAXPAYERS REGISTRATION NUMBER OF PARTNER RESPONSIBLE 755.400.708-44	

01.05 - CAPITAL COMPOSITION

NUMBER OF SHARES (thousand)	1 - CURRENT QUARTER 09/30/2005	2 - PRIOR QUARTER 06/30/2005	3 - SAME QUARTER PRIOR YEAR 09/30/2004
Paid-up Capital			
1 - Common	28,479,577	28,479,577	28,479,577
2 - Preferred	0	0	0
3 Total	28,479,577	28,479,577	28,479,577
Treasury Stock			
4 - Common	0	0	0
5 - Preferred	0	0	0
6 Total	0	0	0

01.06 CHARACTERISTICS OF THE COMPANY

1 - TYPE OF COMPANY Commercial, Industrial and Other Companies
2 - SITUATION Operating
3 - NATURE OF OWNERSHIP State-owned
4 - ACTIVITY CODE 116 Sanitation, Water and Gas Services

5 - MAIN ACTIVITY Water catchment, treatment and distribution; Sewage collection and treatment
6 - TYPE OF CONSOLIDATION Not Submitted
7 - TYPE OF REPORT OF THE INDEPENDENT ACCOUNTANT Unqualified

01.07 - COMPANIES EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

1 ITEM	2 CNPJ	3 NAME

01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER

1 - ITEM	2 - EVENT	3 DATE APPROVED	4 AMOUNT	5 PAYMENT BEGINNING	6 TYPE OF SHARE	7 - AMOUNT PER SHARE
01	RCA	02/26/2004	Interest on net equity	06/28/2005	ON	0.0013800000
02	RCA	12/16/2004	Interest on net equity	06/28/2005	ON	0.0030000000
03	RCA	01/13/2005	Interest on net equity	06/28/2005	ON	0.0009900000
04	RCA	04/28/2005	Interest on net equity		ON	0.0013413120
05	RCA	06/23/2005	Interest on net equity		ON	0.0023500000
06	RCA	10/20/2005	Interest on net equity		ON	0.0029900000

01.09 - SUBSCRIBED CAPITAL AND CHANGES IN THE CURRENT YEAR

1 - ITEM	2 DATE OF CHANGE	3 - CAPITAL STOCK AMOUNT (In thousand reais)	4 - AMOUNT OF THE CHANGE (In thousand reais)	5 NATURE OF THE CHANGE	6 - NUMBER OF SHARES ISSUED (Thousand)	7 - SHARE PRICE ON ISSUE DATE (Reais)

01.10 - INVESTOR RELATIONS OFFICER

1 - DATE 11/11/2005	2 SIGNATURE

02.01 BALANCE SHEET - ASSETS (In Thousand Reais)

1 Code	2 Description	3 09/30/2005	4 06/30/2005
1	Total assets	17,256,691	17,797,010
1.01	Current assets	1,683,012	2,271,423
1.01.01	Cash	228,641	877,949
1.01.01.01	Cash and cash equivalents	228,485	198,970
1.01.01.02	Foreign exchange advance	0	678,678
1.01.01.03	Other cash equivalents	156	301
1.01.02	Credits	1,150,486	1,115,441
1.01.02.01	Customers, net	1,150,486	1,115,441
1.01.03	Inventories	26,031	25,040
1.01.03.01	Operating storeroom	26,031	25,040
1.01.04	Other	277,854	252,993
1.01.04.01	Accounts receivable from shareholders	196,696	174,742
1.01.04.02	Recoverable taxes and contributions	442	442
1.01.04.03	Taxes and contributions	26,477	30,421
1.01.04.04	Other accounts receivable	54,239	47,388
1.02	Long term assets	1,540,108	1,503,960
1.02.01	Sundry credits	1,540,108	1,503,960
1.02.01.01	Customers, net	267,179	278,687
1.02.01.02	Compensation for concession termination	148,794	148,794
1.02.01.03	Judicial deposits	19,871	15,395
1.02.01.04	Accounts receivable from shareholders	783,004	757,727
1.02.01.05	Taxes and contributions	288,828	272,293
1.02.01.06	Other accounts receivable	32,432	31,064
1.02.02	Receivables from related companies	0	0
1.02.02.01	From associated companies	0	0
1.02.02.02	From controlled companies	0	0
1.02.02.03	From other related companies	0	0
1.02.03	Other	0	0
1.03	Permanent assets	14,033,571	14,021,627
1.03.01	Investments	5,100	5,100
1.03.01.01	Interest in associated companies	0	0
1.03.01.02	Interest in controlled companies	0	0
1.03.01.03	Other investments	5,100	5,100
1.03.01.03.01	Shares in other companies	669	669
1.03.01.03.02	Shares in other companies with tax incentive	4,409	4,409
1.03.01.03.03	Compulsory deposits - Eletrobrás	22	22
1.03.02	Fixed assets	13,996,216	13,981,250
1.03.02.01	Property, plant and equipment	12,039,235	12,142,986
1.03.02.02	Work in progress	1,956,981	1,838,264
1.03.03	Deferred assets	32,255	35,277
1.03.03.01	Organization and reorganization expenses	32,255	35,277

02.02 BALANCE SHEET - LIABILITIES (In Thousand Reais)

1 Code	2 Description	3 09/30/2005	4 06/30/2005
2	Total liabilities	17,256,691	17,797,010
2.01	Current liabilities	1,599,034	2,136,018
2.01.01	Loans and financing	438,257	1,082,150
2.01.02	Debentures	316,774	338,026
2.01.02.01	4th issue debentures	100,001	100,001
2.01.02.02	5th issue debentures	148,481	149,155
2.01.02.03	Interest on debentures	68,292	88,870
2.01.03	Suppliers	58,345	46,553
2.01.04	Taxes, fees and contributions	138,354	129,115
2.01.04.01	Paes Program	38,629	37,856
2.01.04.02	Cofins and Pasep	33,984	30,438
2.01.04.03	Corporate Income Tax	31,621	31,662
2.01.04.04	Social contribution	8,351	8,294
2.01.04.05	I.N.S.S. (Social Security)	16,143	17,241
2.01.04.06	Other	9,626	3,624
2.01.05	Dividends payable	0	0
2.01.06	Provisions	37,742	30,979
2.01.06.01	Finsocial	7,872	7,872
2.01.06.02	For Civil contingencies	0	976
2.01.06.03	For Suppliers contingencies	13,270	10,763
2.01.06.04	For Customers contingencies	16,600	11,368
2.01.07	Debt with related companies	0	0
2.01.08	Other	609,562	509,195
2.01.08.01	Salaries and payroll charges	181,218	169,579
2.01.08.02	Services	79,623	71,880
2.01.08.03	Interest on net equity payable	262,851	183,526
2.01.08.04	Taxes and contributions	71,371	69,980
2.01.08.05	Amounts refundable	10,687	10,360
2.01.08.06	Other liabilities	3,812	3,870
2.02	Long-term liabilities	7,206,948	7,319,760
2.02.01	Loans and financing	4,101,024	4,226,698
2.02.02	Debentures	1,776,967	1,815,267
2.02.02.01	4th issue debentures	24,998	49,998
2.02.02.02	5th issue debentures	148,481	149,155
2.02.02.03	6th issue debentures	610,692	616,509
2.02.02.04	7th issue debentures	299,546	301,085
2.02.02.05	8th issue debentures	693,250	698,520
2.02.03	Provisions	564,071	528,084
2.02.03.01	Provision for labor indemnities	29,517	27,731
2.02.03.02	Civil	58,709	48,792
2.02.03.03	Social security charges	7,463	7,590

02.02 BALANCE SHEET - LIABILITIES (In Thousand Reais)

1 Code	2 Description	3-09/30/2005	4 06/30/2005
2.02.03.04	Suppliers	181,315	182,269
2.02.03.05	Customers	261,145	235,275
2.02.03.06	Environmental	22,227	22,731
2.02.03.07	Other	3,695	3,696
2.02.04	Debts with related companies	0	0
2.02.05	Others	764,886	749,711
2.02.05.01	Taxes and contributions	136,104	131,615
2.02.05.02	Paes Program	260,749	264,998
2.02.05.03	Social security liabilities	263,305	249,736
2.02.05.04	Amounts refundable	72,557	72,557
2.02.05.05	Other accounts payable	32,171	30,805
2.03	Deferred income	0	0
2.05	Shareholders equity	8,450,709	8,341,232
2.05.01	Paid-in capital	3,403,688	3,403,688
2.05.02	Capital reserves	76,306	72,824
2.05.02.01	Support for projects reserve	60,526	57,044
2.05.02.02	Incentive reserves	15,780	15,780
2.05.03	Revaluation reserves	2,552,189	2,574,594
2.05.03.01	Own assets	2,552,189	2,574,594
2.05.03.02	Controlled/associated companies	0	0
2.05.04	Profit reserves	1,863,389	1,863,389
2.05.04.01	Legal	171,991	171,991
2.05.04.02	Statutory	0	0
2.05.04.03	For contingencies	0	0
2.05.04.04	Unrealized profits	0	0
2.05.04.05	Retained earnings	0	0
2.05.04.06	Special for undistributed dividends	0	0
2.05.04.07	Other profit reserves	1,691,398	1,691,398
2.05.04.07.01	Reserve for investments	1,691,398	1,691,398
2.05.05	Retained earnings/accumulated deficit	555,137	426,737

03.01 INCOME STATEMENT (In Thousand Reais)

1 Code	2 Description	3 07/01/2005 to 09/30/2005	4 01/01/2005 to 09/30/2005	5 - 07/01/2004 to 09/30/2004	6 - 01/01/2004 to 09/30/2004
3.01	Gross sales and/or services revenues	1,323,016	3,905,260	1,148,349	3,365,812
3.01.01	Water supply retail	681,714	2,018,926	594,114	1,734,575
3.01.02	Water supply wholesale	60,435	176,598	54,266	160,291
3.01.03	Sewage collection and treatment	559,666	1,644,803	478,922	1,403,605
3.01.04	Other services rendered	21,201	64,933	21,047	67,341
3.02	Gross revenue deductions	(100,431)	(292,661)	(61,514)	(152,651)

3.02.01	Cofins	(82,516)	(240,241)	(50,549)	(123,876)
3.02.02	Pasep	(17,915)	(52,420)	(10,965)	(28,775)
3.03	Net sales and/or services revenues	1,222,585	3,612,599	1,086,835	3,213,161
3.04	Cost of sales and/or services	(600,934)	(1,753,032)	(554,247)	(1,637,196)
3.05	Gross profit	621,651	1,859,567	532,588	1,575,965
3.06	Operating expenses/income	(341,746)	(853,939)	(158,505)	(1,097,164)
3.06.01	Selling	(136,886)	(381,447)	(111,295)	(342,546)
3.06.02	General and administrative	(84,106)	(253,022)	(69,754)	(208,578)
3.06.03	Financial	(120,754)	(219,470)	22,544	(546,040)
3.06.03.01	Financial income	20,668	70,183	27,059	79,934
3.06.03.01.01	Financial income	20,668	70,183	27,462	83,035
3.06.03.01.02	Cofins/Pasep	0	0	(403)	(3,101)
3.06.03.02	Financial expenses	(141,422)	(289,653)	(4,515)	(625,974)
3.06.03.02.01	Financial expenses	(141,422)	(289,653)	(4,515)	(625,974)
3.06.04	Other operating income	0	0	0	0
3.06.05	Other operating expenses	0	0	0	0
3.06.06	Equity in the earnings	0	0	0	0
3.07	Operating income	279,905	1,005,628	374,083	478,801

03.01 INCOME STATEMENT (In Thousand Reais)

1 Code	2 Description	3 07/01/2005 to 09/30/2005	4 01/01/2005 to 09/30/2005	5 - 07/01/2004 to 09/30/2004	6 - 01/01/2004 to 09/30/2004
3.08	Non-operating income	(10,745)	(9,835)	517	(10,967)
3.08.01	Revenues	1,623	5,264	2,838	7,583
3.08.01.01	Revenues	2,015	6,343	3,113	8,363
3.08.01.02	Cofins / Pasep	(392)	(1,079)	(275)	(780)
3.08.02	Expenses	(12,368)	(15,099)	(2,321)	(18,550)
3.08.02.01	Loss on disposal of fixed assets	(10,337)	(12,669)	(1,305)	(17,581)
3.08.02.02	Other	(2,031)	(2,430)	(1,016)	(969)
3.09	Income before taxes/profit share	269,160	995,793	374,600	467,834
3.10	Provision for income tax and social contribution	(76,124)	(309,857)	(132,754)	(170,864)
3.10.01	Provision for income tax	(60,315)	(246,100)	(105,316)	(135,622)
3.10.02	Provision for social contribution	(15,809)	(63,757)	(27,438)	(35,242)
3.11	Deferred income tax	6,893	18,665	2,469	7,057
3.11.01	Deferred income tax	10,050	34,925	9,394	15,006
3.11.02	Deferred social contribution	(3,157)	(16,260)	(6,925)	(7,949)
3.11.03	Reversal of deferred income tax	0	0	0	0
3.12		(8,780)	(26,341)	(8,780)	(26,341)

	Statutory profit share/contribution				
3.12.01	Profit share	0	0	0	0
3.12.02	Contribution	(8,780)	(26,341)	(8,780)	(26,341)
3.12.02.01	Extraordinary item	(8,780)	(26,341)	(8,780)	(26,341)
3.13	Reversal of interest on net equity	0	0	0	0
3.15	Profit/loss for the period	191,149	678,260	235,535	277,686
	NUMBER OF SHARES, EX-TREASURY SHARES				
	(Thou)	28,479,577	28,479,577	28,479,577	28,479,577
	PROFIT PER SHARE	0.00671	0.02382	0.00827	0.00975
	LOSS PER SHARE				

01444-3 CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO 43.776.517/0001-80

04.01 EXPLANATORY NOTES

Amounts in thousand reais

1. OPERATIONS

Companhia de Saneamento Básico do Estado de São Paulo (SABESP or Company) is engaged in the operation of public water and sewage systems in the State of São Paulo, Brazil, providing water and sewage services to a broad range of residential, commercial, industrial and government customers. The Company also provides water on a wholesale basis to certain municipalities in the São Paulo Metropolitan Region that do not have water production systems.

SABESP provides water and sewage services in 368 municipalities in the State of São Paulo, nearly all of which are through concessions granted by the municipalities. Most of these concessions have 30-year terms, 12 of which expire in 2005, 132 in 2006, 30 in 2007, 21 in 2008, 32 in 2009, 46 in 2010 and the remainder between 2011 and 2034. Each of these concessions is automatically renewable for a period equal to its initial term, unless the municipality or SABESP exercises the right to terminate the concession, through notification by either party, at least six months prior to its expiration date.

The Company does not hold a formal concession to provide water and sewage services in the City of São Paulo, which accounts for a substantial portion of the sales and services rendered. In Santos, a municipality located in the Santos Coastal Area, which also has a significant population, SABESP operates under a public authorization, like in some other municipalities in the Santos Coastal Area and the Ribeira Valley, where the Company started operating after the merger of the companies that formed SABESP.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with accounting practices adopted in Brazil and with the Brazilian Securities Commission (CVM) regulations.

3. SIGNIFICANT ACCOUNTING PRACTICES

(a) Determination of results of operations

(i) Revenue from sales and services

Revenue for water and sewer services is recognized as water is consumed or as services are provided. Revenue from water and sewer services rendered but not billed until the end of the periods is recorded as unbilled customer accounts receivable based on monthly estimates in order to match such revenue with costs incurred.

(ii) Financial income and expenses

Financial income and expense are primarily comprised of interest and monetary and exchange variations on loans and financing, and financial investments, calculated and reported on the accrual basis of accounting.

(iii) Income tax and social contribution taxes

Income tax and social contribution are recorded on an accrual basis. The provisions for income tax and deferred income tax on tax losses and on temporary differences are recorded at the baserate of 15% plus an additional of 10%. The provisions for social contribution on net income and deferred social contribution on tax losses and on temporary differences are recorded at the rate of 9%.

(iv) Other income and expenses

Other income and expenses are reported on an accrual basis.

(b) Financial investments

Financial investments are comprised mainly by Financial Investment Funds (FIF) and are stated at cost plus accrued interest (*pro rata temporis*) until the end of the period, up to the limit of the market value.

(c) Allowance for doubtful accounts

The Company records an allowance for doubtful accounts for receivable balances in excess of R$ 5 and overdue for more than 360 days and for those in excess of R$ 30 and overdue for more than 360 days, which are under judicial collection proceedings. The amount is deemed by the Management to be sufficient to cover probable losses, based on an aging analysis of receipts, taking into consideration the expected recovery in the different categories of customers. For accounts receivable balances under R$ 5 and overdue more than 180 days, such balances are written off through a direct charge to income.

(d) Inventories

Inventories of materials used in operations and in the maintenance of the Company s water and sewage systems are stated at the lower of average acquisition cost or realization value, and are classified in current assets.

Inventories for capital projects are classified under property, plant and equipment and are stated at the average acquisition cost.

(e) Other current assets and long-term receivables

Other current assets and long-term receivables are stated at the lower of acquisition cost or realization value, plus accrued interest, when applicable.

(f) Permanent assets

These are stated at adjusted cost up to December 31, 1995, and take the following into consideration:

Depreciation of property, plant and equipment - is recorded using the straight-line method at the annual rates mentioned in Note 6.a.

Revaluation of property, plant and equipment items - carried out in two separate stages in 1990 and 1991, was based on an appraisal report issued by independent experts. The referred revaluation was stated with a corresponding entry to the revaluation reserve account, in the shareholders equity, and is realized through depreciation, sale, and disposal of the respective assets, with a corresponding entry to retained earnings.

Interest charges on financings raised with third parties for construction in progress are capitalized as part of the cost of assets.

Deferred charges are amortized on the straight-line basis over five years as from the date when benefits start to be generated.

(g) Loans and financings

Loans and financing are adjusted by indexation charges and foreign exchange variations and include accruals for related interest expenses.

(h) Provision for vacation pay

The provision for vacation pay and respective payroll charges is accrued as earned.

(i) Provision for contingencies

Provisions for contingencies are recorded to cover eventual losses related to labor, tax, civil, commercial and other lawsuits, at administrative and court levels, which are considered by legal counsel to be probable and able to be estimated at September 30, 2005.

(j) Environmental expenditures

Expenditures relating to ongoing environmental programs are recorded in income as incurred. Ongoing programs are designed and performed with a view to minimize the environmental impact of the operations and to manage the environmental risks inherent to the activities. Provisions with respect to such costs are recorded at the time they are considered to be probable and able to be reasonably estimated.

(k) Actuarial liability

The Company sponsors a private defined benefit pension plan. CVM Deliberation 371 of December 13, 2000 determines the recognition of actuarial liabilities exceeding the fair value of the assets of the pension plans. Liabilities ascertained at December 31, 2001 have been recognized over a period of 5 years, as from fiscal year 2002.

(l) Other current liabilities and long-term liabilities

These are stated at their known or estimated amounts, including accrued charges and monetary and foreign exchange variations, when applicable.

(m) Interest on shareholder s equity

This interest has been recorded in accordance with Law 9249/95, for tax deductibility purposes, being limited to the daily pro-rata variation of the Long-term Interest Rate (TJLP) and recorded in conformity with CVM Deliberation 207/96.

(n) Profit per thousand shares

Profit per thousand shares is calculated based on the number of shares outstanding at the balance sheet date.

(o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the reporting periods. Actual results could differ from those estimates.

4. CUSTOMERS ACCOUNTS RECEIVABLE

(a) Balance sheet balances

	Sep/05	Jun/05
Private customers	944,384	926,029
Government entities	439,219	414,524
Wholesale customers municipal authorities (i)		
- Guarulhos	282,871	284,688
- Santo André	247,075	239,006
- Mauá	88,110	83,304
- Diadema	71,326	70,945
- Mogi das Cruzes	3,905	3,818
- São Caetano do Sul	2,709	2,661
	695,996	684,422
Unbilled amounts	208,795	200,983

Subtotal	2,288,394	2,225,958
Allowance for doubtful accounts	(870,729)	(831,830)
Total customers	1,417,665	1,394,128
Current assets	1,150,486	1,115,441
Long term assets (ii)	267,179	278,687
	1,417,665	1,394,128

(i) Wholesale customers municipal authorities Accounts receivable from wholesale customers relate to the wholesale of treated water to certain municipalities, which are responsible for distribution, billing and collection with the final customers. Water services provided to wholesale customers are as follows:

	3Q05	2Q05
Balance at beginning of period	684,422	657,579
Billings for services provided	60,435	58,434
Collections current year services	(31,840)	(31,591)
Collections prior year services	(17,021)	-
Balance at end of period	695,996	684,422
Current portion	12,171	10,098
Long term portion	683,825	674,324

(ii) Long-term receivables - Past-due and renegotiated balances with customers and past-due receivables related to the wholesale of water to municipal authorities. It is stated net of the allowance for doubtful accounts in the amount of R$ 481,949 on September 30, 2005 (Jun/2005 R$ 454,175).

(b) Customer accounts receivable aging summary

	Sep/05	Jun/05
Amounts currently due	666,807	634,072
Past due:		
Up to 30 days	173,919	175,554
From 31 to 60 days	66,511	67,586
From 61 to 90 days	60,032	57,591
From 91 to 120 days	56,989	46,717
From 121 to 180 days	96,257	96,776
From 181 to 360 days	203,747	212,023
For more than 360 days	964,132	935,639
Total	2,288,394	2,225,958

(c) Allowance for doubtful accounts

(i) Changes in the allowance for doubtful accounts are as follows:

	3Q05	2Q05
Prior balance	831,830	794,475
Private-sector customers/government entities	11,125	1,949
Wholesale customers	27,774	35,406
Additions in the period, net	38,899	37,355
Current balance	870,729	831,830
Current	388,780	377,655
Long term	481,949	454,175

(ii) In the income

The Company recorded direct charges for probable losses in accounts receivable incurred in the third quarter of 2005, in the amount of R$ 64,541 (net of recoveries, of R$ 25,642 up to R$ 5 and R$ 38,899 over R$ 5), directly to the income for the period, recorded as a reduction of selling expenses. These losses amounted to R$ 46,209 in the third quarter of 2004.

	3Q/05	3Q/04
Provisions (over R$ 5)	(38,899)	(25,803)
Written-off (less than or equal to R$ 5)	(25,642)	(20,406)
Expenses	(64,541)	(46,209)

5. RELATED PARTY TRANSACTIONS

The Company is a party to a number of transactions with its majority shareholder, the State Government, and its related agencies.

(a) Receivables from the State Government

	Set/05	Jun/05
Current receivables:		
Water and sewage services (i)	149,161	126,072

Gesp Agreement	47,535	48,670
Total current receivables	196,696	174,742
Long term receivables:		
Gesp Agreement	140,444	137,898
Reimbursement for pension benefits paid (ii)	642,560	619,829
Gross long-term receivable from the shareholder	783,004	757,727
	979,700	932,469
Water and sewage services rendered	337,140	312,640
Reimbursement for pension benefits	642,560	619,829
	979,700	932,469

Gross revenue from sales and services	3Q05	3Q04
Water sale	40,509	35,583
Sewage services	34,538	24,726
Amounts received	(51,957)	(40,289)

The Company does not record an allowance for doubtful accounts for any amounts due from the State Government or entities controlled by the State Government, since it does not expect losses on such receivables.

(i) Water and sewage services

The Company provides water and sewage services to the State Government and its related agencies under terms and conditions that Management believes are equal to those with third parties, except for the settlement of amounts outstanding, as described further below.

(ii) Reimbursement for pensions and benefits paid

Reimbursement for pension and benefits paid represents supplementary pension and leave benefit paid by the Company on behalf of the State Government to former employees of State Government-owned companies, which merged to form SABESP. These amounts should be reimbursed to the Company by the State Government, as the primary obligor, and do not bear interests. The budget proposal of the State of São Paulo Government, as approved by the State House of Representatives, includes funds referring to such obligation.

(iii) GESP Agreement

On December 11, 2001, the Company entered into an agreement with the State Government (GESP Agreement), under which the State Government acknowledged a debt, among others, for services rendered by the Company of water supply and sewage collection, totaling R$ 358,207 on that date, representing services rendered until December 01, 2001, having further agreed to pay the amounts due. Additionally, the State Government acknowledged and agreed to pay amounts owed to the Company in connection with supplemental retirement and pension benefits paid by the Company, on its behalf, in the amount of R$ 320,623 on that date.

The GESP Agreement sets forth that the Water and Electric Power Department DAEE will transfer, as partial payment to the Company, the title to the Taiacupeba, Jundiaí, Biritiba, Paraitinga and Ponte Nova reservoirs, which make up the Alto Tietê System, and the amount of such assets will reduce the amounts owed to the Company. The asset value of these reservoirs was ascertained based on the arithmetic average of independent evaluations carried out by CPOS Companhia de Obras e Serviços (a state-owned building company selected by the State Government) and by ENGEVAL Engenharia de Avaliação (an independent appraisal company selected by the Company). The payment of the amounts owed in excess to the fair market value of the reservoirs, as agreed upon between the parties, shall be effected by the State of São Paulo Government in 114 monthly successive installments, monthly adjusted by the IGP-M index, added by interests of 6% per annum, beginning from the maturity date of the first installment. Under the terms of the Agreement, the first original payment should have been effected in July 2002, however it was postponed because the parties did not reach an agreement as for the fair value of the reservoirs and the audit and specific analysis of the amounts due ascertained by the experts appointed by the State Government were not concluded. The evaluation work of the reservoirs have been concluded and approved by the Company s Board of Directors with the arithmetic average in the amount of R$ 300,880 (base date June 2002), as substantiated in the respective reports.

Additionally, pursuant to the memorandum of understanding and the GESP Agreement, the State Government may authorize the Company to use dividends, including interests on net equity stated by the Company and any other obligation payable to the State Government, for offsetting against accounts receivable for services of water supply and sewage collection rendered to the State Government.

Based on official letter no. 53/2005, the Council for Defense of the State Capitals CODEC, dated March 21, 2005, renegotiations between the Company and the State Government have been resumed with a view to obtain the settlement of the debt relating to the supplementary retirement and pension benefits, under the terms set forth in the GESP agreement, including amounts overdue after November 2001. These renegotiations must be restated in a second amendment to the Agreement between the State Government and Sabesp. The Company retained FIPECAFI to calculate the amounts actually reimbursable by the State Government, taking into consideration the legal advice provided by the State Attorneys Office.

Once the debt amount is calculated and the monetary adjustment criterion is determined, Sabesp will be entitled to take the applicable actions with the DAEE in order to obtain the ownership rights over the Alto Tietê System reservoirs, since no court hindrance exists, having in regard that the State has timely filed an appeal against the judgment rendered in the civil public action and was granted suspension of the effects thereof.

The referred second addendum must provide for the criteria for monthly recovery of future amounts to be disbursed by Sabesp.

Since these negotiations are at their initial stage, it is not possible to ascertain the net effects over the balance sheet arising from such negotiation. The Management does not estimate that it will incur significant net losses relating to the differences ascertained between the amounts deemed to be reimbursable by the State Government and the amounts actually paid by Sabesp.

The balances for water and sewage services were included in the 1st amendment as described below (iv).

(iv) First Amendment to the GESP Agreement

On March 22, 2004, the Company and the State Government amended the terms of the original GESP Agreement, thereby (1) consolidating and acknowledging amounts due from the State Government for water and sewage services through February 2004, monetarily adjusted through February 2004; (2) formally providing for the offset of amounts due from the State Government against interest on shareholders equity declared by the Company and any other debt owed to the State Government at December 31, 2003, which were monetarily adjusted through February 2004; and (3) defining the payment terms of the remaining obligations of the State Government for water and sewage services.

Under the terms of the Amendment, the State Government acknowledged amounts due to the Company for water and sewage services provided through February 2004, of R$ 581,779, and the Company acknowledged amounts due to the State Government with respect to interests on shareholder s equity in the amount of R$ 518,732.

The Company and the State Government have agreed to the reciprocal offset of R$ 404,889 (monetarily adjusted through February 2004), which were settled up to April 30, 2005. The remaining obligation, of R$ 187,979 at September 30, 2005 is subject to monthly monetary adjustment at the Expanded Consumer Price Index IPCA/IBGE, plus interests of 0.5%, of which R$ 140,444 are recorded in long term assets and R$ 47,535 in current assets.

Management believes that the amounts due from the State Government are collectible and does not expect to incur losses on these accounts receivable.

(b) Cash

The Company s balance of cash and financial investments accounts with financial institutions controlled by the State Government was R$ 195,818 at September 30, 2005 (R$ 169,434 at June 30, 2005). The financial income from such investments was R$ 24,582 and R$ 17,830, in the periods ended on September 30, 2005 and 2004, respectively.

(c) Agreement for use of reservoirs

The Company uses the Guarapiranga and Billings reservoirs and a portion of some of the reservoirs of the Alto Tietê System, which are owned by another company controlled by the State of São Paulo Government. The Company does not pay any fees with respect to the use of these reservoirs, but is responsible for maintaining and funding their operating costs.

The Company has the right to draw water and exploit the reservoirs for a period of 30 years, counted as from 1997.

6. PROPERTY, PLANT AND EQUIPMENT

		Sep/05		Jun/05
	Cost	Accumulated Depreciation Amortization	Net	Net
In use				
Water system				
Land	935,221	-	935,221	934,924
Buildings	2,641,702	(1,285,487)	1,356,215	1,375,497
Connections	799,604	(312,523)	487,081	488,940
Water meters	269,284	(134,832)	134,452	132,937
Networks	3,231,245	(919,337)	2,311,908	2,332,962
Equipment	254,376	(154,499)	99,877	99,994
Others	481,496	(200,966)	280,530	289,366
Subtotal	8,612,928	(3,007,644)	5,605,284	5,654,620
Sewage system				
Land	352,021	-	352,021	351,913
Buildings	1,447,741	(500,244)	947,497	959,897
Connections	842,588	(312,221)	530,367	531,754

Networks	4,621,544	(1,010,019)	3,611,525	3,623,462
Equipment	499,291	(340,170)	159,121	169,463
Others	14,793	(803)	13,990	12,536
Subtotal	7,777,978	(2,163,457)	5,614,521	5,649,025
General use				
Land	102,952	-	102,952	102,953
Buildings	120,825	(63,781)	57,044	58,036
Transportation equipment	132,164	(120,974)	11,190	12,820
Furniture, fixtures and equipment	286,025	(175,010)	111,015	124,602
Free lease land	25,312	-	25,312	25,312
Free lease assets	9,618	(3,027)	6,591	6,591
Subtotal	676,896	(362,792)	314,104	330,314
Subtotal in use	17,067,802	(5,533,893)	11,533,909	11,633,959
Construction in progress				
Water system	614,499	-	614,499	555,964
Sewage system	1,323,218	-	1,323,218	1,263,358
Others	19,264	-	19,264	18,942
Subtotal construction in progress	1,956,981	-	1,956,981	1,838,264
Intangible assets	580,861	(75,535)	505,326	509,027
Total	19,605,644	(5,609,428)	13,996,216	13,981,250

a) Depreciation:

Depreciation is calculated at the following annual rates: buildings - 4%; networks 2%; equipment 10%; water meters 10%; transportation equipment 20%; computer equipment 20%; building connections 5%, and furniture, fixtures and equipment 10%.

Amortization of intangible assets is effected during the term of the concession agreements entered into with the municipalities served by the Company.

b) Construction in progress

The estimated disbursement as from October 2005, up to 2011, relating to the works already contracted, is approximately R$ 1,050,000 (not reviewed by the independent auditors).

c) Disposals of property, plant and equipment

For the third quarter of 2005, the Company wrote-off property, plant and equipment in the amount of R$ 10,337 (2004 R$ 1,305), of which R$ 1,165 (2004 R$ 1,305) are related to the group of properties in use due to obsolescence, theft or disposal and R$ 9,172 are related to works in progress, related to deactivated works, unproductive wells and unfeasible projects.

d) Expropriations

As a result of the implementation of priority projects related to the water and sewage systems, the Company was forced to expropriate or establish rights of way over third-party properties, in conformity with the relevant legislation. The owners of these properties will be compensated either through negotiated settlements or judicial arbitration. Disbursements to be effected as from the third quarter of 2005, without a date set for the actual disbursement, are estimated to be approximately R$ 280,200 (not reviewed by the independent auditors), which will be paid out of Company funds. The assets to be received as a result of these negotiations will be recorded as property, plant, and equipment after the transaction is completed. The amount referring to expropriations in the third quarter of 2005 was R$ 2,464 (2004 R$ 1,054).

e) Tax effects on assets revaluation

Property, plant and equipment were revaluated in 1990 and 1991 and have been depreciated at annual rates which take into consideration the estimated remaining economic useful lives of the assets as determined in the respective valuation reports that generally do not exceed the original depreciable lives.

As permitted by CVM Instruction 197/93, the Company did not post a provision for the tax effects (deferred taxes) on the revaluation surplus of property, plant and equipment carried out in 1990 and 1991. Had this effect been accounted for, the amount unrealized up to September 30, 2005 would be R$ 468,696 (Sep/2004 R$ 499,832). In the period from January to September 2005, the realized revaluation reserve was R$ 67,031 (January to September 2004 R$ 79,937).

f) Intangible assets

As from 1998, negotiations relating to new concessions were carried out based on the economic-financial results of the relevant business, as established on appraisal reports issued by independent experts.

The amount provided for in the respective contract, after the transaction is closed with the municipal government and carried out either through subscription of shares in the Company or in cash, is posted to the intangible assets account and amortized over the related concession period.

7. LOANS AND FINANCING

(i) Outstanding loans and financing

	Sep/05			Jun/05						
	Short Term	Long Term	Total	Short Term	Long Term	Total	Final Maturity	Annual Interest Rate	Monet. Adjust.	Guarantees

<u>Domestic</u>

Fed. Government / Banco do Brasil	188,964	2,065,507	2,254,471	183,406	2,096,020	2,279,426	2014	8.5%	UPR	State Government
Debentures 4th Issue	100,001	24,998	124,999	100,001	49,998	149,999	2006	CDI+1.2%	-	-
Debentures 5th Issue	148,481	148,481	296,962	149,155	149,155	298,310	2007	CDI+1.1% and 10.65%	IGP-M	-
Debentures 6th Issue	-	610,692	610,692	-	616,509	616,509	2007 to 2010	CDI+1.75 and 11%	IGP-M	-
Debentures 7th Issue	-	299,546	299,546	-	301,085	301,085	2009 and 2010	CDI+1.5% and 10.8%	IGP-M	-
Debentures 8th Issue	-	693,250	693,250	-	698,520	698,520	2009 and 2011	CDI+1.5% and 10,75%	IGP-M	-
CEF	41,667	446,516	488,183	40,232	451,554	491,786	2007 to 2020	5 % to 9,5%	UPR	Own funds
BNDES	21,039	175,223	196,262	16,273	164,730	181,003	2013	3% + TJLP	-	Own funds
Others	2,466	24,656	27, 122	2,386	24, 645	27,031	2008 to 2011	12% / CDI / TJLP+6%	UPR	-
Interests and charges	90,120	-	90,120	111,442	-	111,442				
Domestic Total	592,738	4,488,869	5,081,607	602,895	4, 552,216	5,155,111				

- None of our non-employee directors receives any direct compensation from us other than under the director compensation plan;
- No immediate family member (within the meaning of the NYSE listing standards) of any non-employee director is an employee or otherwise receives direct compensation from us;
- No non-employee director is an employee of our independent registered public accounting firm and no non-employee director (or any of their respective immediate family members) is a current partner of our independent registered public accounting firm, or was within the last three years, a partner or employee of our independent registered public accounting firm and personally worked on our audit;

- No non-employee director is a member, partner, or principal of any law firm, accounting firm or investment banking firm that receives any consulting, advisory or other fees from us;

- None of our executive officers is on the compensation committee of the board of directors of a company that employs any of our non-employee directors (or any of their respective immediate family members) as an executive officer;

- No non-employee director (or any of their respective immediate family members) is indebted to us and we are not indebted to any non-employee director (or any of their respective immediate family members);

- No non-employee director serves as an executive officer of a charitable or other tax-exempt organization that received contributions from us; and

- The transactions described below under "Certain Relationships and Related Transactions."

Board of Directors Leadership Structure

The board of directors has adopted corporate governance guidelines to promote the functioning of the board and its committees. These guidelines address board composition, board functions and responsibilities, qualifications, leadership structure, committees and meetings.

Our Corporate Governance Guidelines do not contain a policy mandating the separation of the offices of the Chairman of the Board and the Chief Executive Officer, and the board is given the flexibility to select its Chairman and our Chief Executive Officer in the manner that it believes is in the best interests of our stockholders. Accordingly, the Chairman and the Chief Executive Officer may be filled by one individual or two. The board has chosen to separate the positions of Chairman of the Board and Chief Executive Officer. We believe this structure is optimal for us because it avoids any duplication of effort between the Chairman and the Chief Executive Officer and permits our Chief Executive Officer to focus his efforts on the day-to-day management of the Company. This separation provides strong leadership for the board and the Company through the Chairman, while also positioning our Chief Executive Officer as our leader in the eyes of our employees and other stakeholders. Our board of directors has also designated a lead independent director. The lead independent director presides

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over periodic meetings of our independent directors, serves as a liaison between our Chairman and the independent directors and performs such additional duties as our board of directors may otherwise determine and delegate. The board may reconsider the best board leadership structure for us from time to time.

Risk Management

Our risk management function is overseen by our board of directors. Through our management reports and company policies, such as our Corporate Governance Guidelines, our Code of Business Conduct and Ethics and our financial audit committee's, IS audit committee's and compensation committee's review of financial and other risks, we keep our board of directors apprised of material risks and provide our directors access to all information necessary for them to understand and evaluate how these risks interrelate, how they affect us and how our management addresses those risks. Mr. Flake, as our Chief Executive Officer, works with our independent directors and with management when material risks are identified by the board of directors or management to address such risk. If the identified risk poses an actual or potential conflict with management, our independent directors would conduct an assessment by themselves.

Executive Sessions

Non-management directors generally meet in executive session each time the board of directors holds a regularly scheduled meeting. The board's policy is to hold executive sessions without the presence of management as a part of all regular board meetings, and, in any event, at least twice during each calendar year. The Company's Corporate Governance Guidelines provide that a non-management independent director shall be chosen to preside at each executive session.

Meetings of the Board of Directors and Committees

The board of directors held 16 meetings during the fiscal year ended December 31, 2015. The board of directors has four standing committees: a compensation committee, a financial audit committee, an IS audit committee and a nominating and corporate governance committee. During the last fiscal year, each of our directors attended at least 75% of the total number of meetings of the board and all of the committees of the board on which such director served during that period.

The following table sets forth the standing committees of the board of directors and the members of each committee as of the date that this Proxy Statement was first made available to our stockholders:

Name of Director	Compensation	Financial Audit	Information Systems Audit	Nominating and Corporate Governance
Michael M. Brown	X	X	X	X
Jeffrey T. Diehl	X	X		X
Charles T. Doyle		X	Chair	X
Michael J. Maples, Sr.	X		X	
James R. Offerdahl		Chair		
Carl James Schaper	Chair			Chair
R. H. "Hank" Seale, III			X	

Compensation Committee

The members of the compensation committee are Messrs. Brown, Diehl, Maples and Schaper, each of whom is a non-employee member of our board of directors. Mr. Schaper serves as the chairperson of the compensation committee. Our board of directors has determined that each member of our compensation committee is independent under the applicable NYSE listing standards and SEC rules and regulations, is a non-employee director, as defined by Rule 16b-3 promulgated under the Exchange Act, and is an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code.

The functions of the compensation committee include:

- reviewing and approving corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers;

- reviewing and approving the salaries, bonuses, incentive compensation, equity awards, benefits and perquisites of our Chief Executive Officer and our other executive officers;

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- recommending the establishment and terms of our incentive compensation plans and equity compensation plans, and administering such plans;
- recommending compensation programs for directors;
- preparing disclosures regarding executive compensation and any related reports required by the rules of the SEC;
- making and approving grants of options and other equity awards to all executive officers, directors and all other eligible individuals; and
- reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

The compensation committee and board of directors believes that attracting, retaining and motivating our employees, and particularly the company's senior management team and key operating personnel, are essential to Q2's performance and enhancing stockholder value. The compensation committee will continue to administer and develop our compensation programs in a manner designed to achieve these objectives.

The compensation committee reviews and recommends policies relating to compensation and benefits of our officers and employees. The compensation committee reviews and approves corporate goals and objectives relevant to compensation of our Chief Executive Officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives, and recommends the compensation of these officers based on such evaluations. The compensation committee also administers the issuance of stock options and other awards under our equity compensation plans.

In October 2013, the compensation committee selected Compensia, Inc., or Compensia, to provide independent compensation consulting support. Compensia has provided market information on compensation trends and practices and makes compensation recommendations based on competitive data of a peer group of companies. Compensia is also available to perform special projects at the compensation committee's request. Compensia provides analyses and recommendations that inform the compensation committee's decisions, but does not decide or approve any compensation actions. As needed, the compensation committee also consults with Compensia on other compensation-related matters, which for fiscal year 2015 included a review of company-wide equity incentive plan grant practices and guidelines and assessing compensation of the board of directors. The engagement of any compensation consultant rests exclusively with the compensation committee, which has sole authority to retain and terminate any compensation consultant or other advisor that it uses.

The compensation committee has assessed the independence of Compensia and concluded that no conflicts of interest exist that would prevent Compensia from providing independent and objective advice to the compensation committee.

The compensation committee held five meetings during the fiscal year ended December 31, 2015.

Financial Audit Committee

The members of the financial audit committee are Messrs. Brown, Diehl, Doyle and Offerdahl, each of whom is a non-employee member of our board of directors. Mr. Offerdahl serves as the chair of the financial audit committee. Our board of directors determined that each of Messrs. Brown, Diehl, Doyle and Offerdahl is independent under the applicable NYSE listing standards and SEC rules and regulations. Our board of directors also determined that each of Messrs. Brown, Diehl, Doyle and Offerdahl meet the requirements for financial literacy and sophistication under the applicable NYSE listing standards and SEC rules and regulations, and that Mr. Offerdahl qualifies as an "audit committee financial expert," under the applicable NYSE listing standards and SEC rules and regulations.

The functions of the financial audit committee include:

- appointing, compensating, retaining and overseeing our independent auditors;
- approving the audit and non-audit services to be performed by our independent auditors;
- reviewing, with our independent auditors, all critical accounting policies and procedures;
- reviewing and discussing with management and the independent auditor our annual audited financial statements and any certification, report, opinion or review rendered by the independent auditor;

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- reviewing with management and the independent auditor the adequacy and effectiveness of our internal control structure and procedures for financial reports;
- reviewing and investigating conduct alleged to be in violation of our code of conduct and establishing procedures for our receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- preparing the Report of the Financial Audit Committee required in our annual proxy statement;
- reviewing the appointment, organization, budget, staffing and charter of the internal audit function, and the annual internal audit plan, and reviewing with management any reports of the internal audit function; and
- reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

The financial audit committee held nine meetings during the fiscal year ended December 31, 2015. Additional information regarding the financial audit committee is set forth in the Report of the Financial Audit Committee immediately following Proposal No. 2.

Information Systems Audit Committee

The members of the IS audit committee are Messrs. Brown, Doyle, Maples and Seale. Mr. Doyle serves as the chair of the IS audit committee.

The functions of the IS audit committee include:

- monitoring and oversight of response to, and compliance with, regulatory requirements, requests and orders;
- overseeing the adequacy, efficacy, and implementation of our compliance audit plan;
- approving and overseeing our major information systems projects that establish and prioritize information systems standards and overall performance;
- reviewing the adequacy and allocation of our information systems resources in terms of funding, personnel, equipment and service levels;
- reviewing, discussing with management and overseeing the implementation, monitoring and testing of our information systems security program and business continuity plan; and
- reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

The IS audit committee held four meetings during the fiscal year ended December 31, 2015.

Nominating and Corporate Governance Committee

The members of the nominating and corporate governance committee are Messrs. Brown, Diehl, Doyle and Schaper. Mr. Schaper serves as the chairperson of the nominating and corporate governance committee. Our board of directors determined that each of Messrs. Brown, Diehl, Doyle and Schaper is independent under the applicable NYSE listing standards and SEC rules and regulations.

The functions of the nominating and corporate governance committee include:

- assisting our board of directors in identifying qualified director nominees and recommending nominees for each annual meeting of stockholders;
- developing, recommending and reviewing corporate governance principles applicable to us;

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- consulting with our financial audit committee regarding, and periodically reviewing, our code of business conduct and ethics;
- assisting our board of directors in its evaluation of its performance and the performance of each of its committees; and
- reviewing and evaluating, at least annually, its own performance and the adequacy of its charter.

The nominating and corporate governance committee held two meetings during the fiscal year ended December 31, 2015.

Director Nominations

Our nominating and corporate governance committee is responsible for, among other things, assisting our board of directors in identifying qualified director nominees and recommending nominees for each annual meeting of stockholders. The nominating and corporate governance committee's goal is to assemble a board that brings to our company a diversity of experience in areas that are relevant to our business and that complies with the NYSE listing standards and applicable SEC rules and regulations. While we do not have a formal diversity policy for board membership, the nominating and corporate governance committee generally considers the diversity of nominees in terms of knowledge, experience, background, skills, expertise and other demographic factors. When considering nominees for election as directors, the nominating and corporate governance committee reviews the needs of the board for various skills, background, experience and expected contributions and the qualification standards established from time to time by the nominating and corporate governance committee. The nominating and corporate governance committee believes that directors must also have an inquisitive and objective outlook and mature judgment. Director candidates must have sufficient time available in the judgment of the nominating and corporate governance committee to perform all board and committee responsibilities. Members of the board of directors are expected to rigorously prepare for, attend and participate in all meetings of the board and applicable committee meetings.

Other than the foregoing and the applicable rules regarding director qualification, there are no stated minimum criteria for director nominees. Under the NYSE listing standards, at least a majority of the members of the board must meet the definition of "independence" and at least one director must have accounting or related financial management expertise, as determined by the board of directors in its business judgment. The nominating and corporate governance committee also believes it appropriate for our Chief Executive Officer to participate as a member of the board of directors.

The nominating and corporate governance committee will evaluate annually the current members of the board whose terms are expiring and who are willing to continue in service against the criteria set forth above in determining whether to recommend these directors for election. The nominating and corporate governance committee will assess regularly the optimum size of the board and its committees and the needs of the board for various skills, background and business experience in determining if the board requires additional candidates for nomination.

Candidates for director nominations come to our attention from time to time through incumbent directors, management, stockholders or third parties. These candidates may be considered at meetings of the nominating and corporate governance committee at any point during the year. Such candidates are to be evaluated against the criteria set forth above. If the nominating and corporate governance committee believes at any time that it is desirable that the board consider additional
candidates for nomination, the committee may poll directors and management for suggestions or conduct research to identify possible candidates and may engage, if the nominating and corporate governance committee believes it is appropriate, a third-party search firm to assist in identifying qualified candidates.

Our bylaws permit stockholders to nominate directors for consideration at an annual meeting. The nominating and corporate governance committee will consider director candidates validly recommended by stockholders. For more information regarding the requirements for stockholders to validly submit a nomination for director, see "Stockholders Proposals or Nominations to Be Presented at Next Annual Meeting" elsewhere in this Proxy Statement.

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Communications with Directors

Stockholders and other interested parties may communicate with the board of directors by mail addressed as follows:

Board of Directors of Q2 Holdings, Inc.
c/o Corporate Secretary
13785 Research Boulevard
Suite 150
Austin, Texas 78750

Please indicate on the envelope that the correspondence contains a stockholder communication. All directors have access to this correspondence. In accordance with instructions from the board, the Corporate Secretary logs and reviews all correspondence and transmits such communications to the full board or individual directors, as appropriate. Certain communications, such as business solicitations, job inquiries, junk mail, patently offensive material or communications that present security concerns may not be transmitted, as determined by the Corporate Secretary.

Director Attendance at Annual Meetings

We attempt to schedule our annual meeting of stockholders at a time and date to accommodate attendance by our board of directors taking into account the directors' schedules. All directors are encouraged to attend our annual meeting of stockholders. Six of our directors attended our 2015 annual meeting of stockholders held on June 9, 2015.

Committee Charters and Code of Business Conduct and Ethics

Our board of directors has adopted a written charter for each of the compensation committee, the financial audit committee, the IS audit committee and the nominating and corporate governance committee. Each charter is available on the investor relations section of our website at http://investors.q2ebanking.com.

We have adopted a Code of Business Conduct and Ethics, or the Code, that applies to all of our employees, officers and directors. The Code is available on the investor relations section of our website at http://investors.q2ebanking.com. A printed copy of the Code may also be obtained by any stockholder free of charge upon request to the Corporate Secretary, Q2 Holdings, Inc., 13785 Research Boulevard, Suite 150, Austin, Texas 78750. Any substantive amendment to or waiver of any provision of the Code may be made only by the board of directors, and will be disclosed on our website as well as via any other means then required by NYSE listing standards or applicable law.

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines, or the Guidelines, that address the composition of the board, criteria for board membership and other board governance matters. These Guidelines are available on the investor relations section of our website at http://investors.q2ebanking.com. A printed copy of the Guidelines may also be obtained by any stockholder free of charge upon request to the Corporate Secretary, Q2 Holdings, Inc., 13785 Research Boulevard, Suite 150, Austin, Texas 78750.

Compensation Committee Interlocks and Insider Participation

None of the members of the compensation committee are or have been an officer or employee of Q2. During the fiscal year ended December 31, 2015, none of our company's executive officers served on the compensation committee (or its equivalent) or board of directors of another entity any of whose executive officers served on our compensation committee or board of directors.

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PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of our board of directors has selected Ernst & Young LLP, or Ernst & Young, to serve as our independent registered public accounting firm to audit the consolidated financial statements of Q2 Holdings, Inc. for the fiscal year ending December 31, 2016. Ernst &Young has served as our auditor since September 2013. A representative of Ernst & Young is expected to be present at the annual meeting to respond to appropriate questions and make a statement if he or she so desires.

The following table sets forth the aggregate fees billed by Ernst & Young for the fiscal years ended December 31, 2015 and 2014:

	Fiscal 2015	Fiscal 2014
Audit fees (1)	$722,129	$466,000
Audit-related fees (2)	—	—
Tax fees (3)	—	—
All other fees (4)	—	—
Total fees	$722,129	$466,000

(1) Audit fees consist of fees billed for professional services rendered for the audit of our consolidated annual financial statements, the review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements, consultations concerning financial reporting in connection with acquisitions and issuances of auditor consents and comfort letters in connection with SEC registration statements and related SEC registered securities offerings.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees."

(3) Tax fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning. These services include assistance regarding federal and state tax compliance and acquisitions.

(4) All other fees consist of fees for products and services other than the services reported above.

Policy on Financial Audit Committee Pre-approval of Audit and Non-audit Services Performed by Independent Registered Public Accounting Firm

The financial audit committee has determined that all services performed by Ernst & Young are compatible with maintaining the independence of Ernst & Young. The financial audit committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Unless the specific service has been pre-approved with respect to that year, the financial audit committee must approve the permitted service before the independent registered public accounting firm is engaged to perform it. The independent registered public accounting firm and management are required to periodically report to the financial audit committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval process.

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Vote Required and Board of Directors Recommendation

The affirmative vote of a majority of the voting power of the shares present in person or by proxy and entitled to vote on the matter at the annual meeting is required for approval of this proposal. Abstentions will have the effect of a vote "against" the ratification of Ernst & Young as our independent registered public accountants. Broker non-votes will have no effect on the outcome of the vote. Your bank or broker will have discretion to vote any uninstructed shares on this proposal. If the stockholders do not approve the ratification of Ernst & Young as our independent registered public accounting firm, the financial audit committee will reconsider its selection.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2016. PROXIES WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXIES.

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REPORT OF THE FINANCIAL AUDIT COMMITTEE

The financial audit committee currently consists of four directors. Messrs. Brown, Diehl, Doyle and Offerdahl are each, in the judgment of the board of directors, an independent director. The financial audit committee acts pursuant to a written charter that has been adopted by the board of directors. A copy of the charter is available on the investor relations section of our website at http://investors.q2ebanking.com.

The financial audit committee oversees our financial reporting process on behalf of the board of directors. The financial audit committee is responsible for retaining our independent registered public accounting firm, evaluating its independence, qualifications and performance, and approving in advance the engagement of the independent registered public accounting firm for all audit and non-audit services. The financial audit committee's specific responsibilities are set forth in its charter. The financial audit committee reviews its charter at least annually.

Management has the primary responsibility for the financial statements and the financial reporting process, including internal control systems, and procedures designed to ensure compliance with applicable laws and regulations. Our independent registered public accounting firm, Ernst & Young LLP, is responsible for expressing an opinion as to the conformity of our audited financial statements with generally accepted accounting principles.

The financial audit committee has reviewed and discussed with management the company's audited financial statements. The financial audit committee has also discussed with Ernst & Young LLP all matters that the independent registered public accounting firm was required to communicate and discuss with the financial audit committee, including the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board (United States) in Rule 3200T regarding "Communication with Audit Committees." In addition, the financial audit committee has met with the independent registered public accounting firm, with and without management present, to discuss the overall scope of the independent registered public accounting firm's audit, the results of its examinations, its evaluations of the company's internal controls and the overall quality of our financial reporting.

The financial audit committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the financial audit committee concerning independence and has discussed with the independent registered public accounting firm its independence.

Based on the review and discussions referred to above, the financial audit committee recommended to our board of directors that the company's audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

FINANCIAL AUDIT COMMITTEE

James R. Offerdahl, Chair
Michael M. Brown
Jeffrey T. Diehl
Charles T. Doyle

The foregoing Report of the Financial Audit Committee shall not be deemed to be incorporated by reference into any filing of Q2 Holdings, Inc. under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act, except to the extent that we specifically incorporate such information by reference in such filing and shall not otherwise be deemed "filed" under either the Securities Act or the Exchange Act or considered to be "soliciting material."

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COMPENSATION OF NAMED EXECUTIVE OFFICERS AND DIRECTORS

Summary Compensation Table

The following table presents compensation information for fiscal 2015, 2014 and 2013 paid to, or earned by, our principal executive officer, for fiscal 2015 and 2014 paid to, or earned by, our chief financial officer, and for fiscal 2015 paid to, or earned by, our other most highly compensated person serving as an executive officer as of December 31, 2015. We refer to these executive officers as our "named executive officers" in this proxy statement.

Name and Principal Position	Year	Salary	Stock Awards(1)	Option Awards(1)	Non-Equity Incentive Plan Compensation		All Other Compensation(5)	Total
Matthew P. Flake	2015	$395,000	$948,930	$921,116	$ 311,250	(2)	$ 8,083	$2,584,379
President and Chief Executive Officer	2014	343,125	—	4,058,561	268,797	(3)	8,093	4,678,576
	2013	300,000	—	—	182,850	(4)	10,042	492,892
Jennifer N. Harris (6)	2015	294,096	464,370	444,110	168,075	(2)	9,322	1,379,973
Chief Financial Officer	2014	265,000	—	1,130,521	91,391	(3)	8,593	1,495,505
John E. Breeden (7) Executive Vice President of Operations	2015	270,012	282,660	279,625	125,736	(2)	8,547	966,580

(1) Amounts represent the aggregate grant date fair value of stock options and stock awards granted during the year computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or FASB ASC Topic 718. Assumptions used in calculating these amounts are described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

(2) Includes amounts earned under our 2015 Bonus Plan as described below.

(3) Includes amounts earned under our 2014 Bonus Plan as described below.

(4) Includes amounts earned under our 2013 Executive Bonus Plan as described below.

(5) Consists of the employer's portion of premiums paid for medical, dental, vision, short-term disability, long term disability, life and accidental death and dismemberment insurance and health savings account contributions, and for Ms. Harris and Mr. Breeden, fees for participation on certain of our employee committees.

(6) Ms. Harris was not a "named executive officer" for fiscal 2013, and therefore only compensation paid to, or earned by, Ms. Harris in fiscal 2015 and 2014 is listed in the table above.

(7) Mr. Breeden was not a "named executive officer" for fiscal 2014 or 2013, and therefore only compensation paid to, or earned by, Mr. Breeden in fiscal 2015 is listed in the table above.

Cash Awards under the 2013 Executive Bonus Plan

Mr. Flake participated in, and was eligible for cash awards under, our 2013 Bonus Plan, which provided for the amounts earned to be based on the following metrics: 50% bookings, 20% delivered revenue and 30% gross margin.

The bookings component consisted of monthly recurring bookings revenue based on committed or contracted levels in our customer agreements, with an exclusion for one-time services. The delivered revenue component consisted of all revenue other than monthly recurring revenue that was delivered and recognized during 2013 and included subscription, implementation and one-time services fees, but excluded any customer termination payments and changes to revenue as a result of accounting policy changes or adjustments. The gross margin component consisted of our gross margin calculated in accordance with generally accepted accounting principles, or GAAP, but excluding capitalization and amortization. These

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components were measured against our 2013 annual budget approved by the board of directors. The 2013 Bonus Plan provided for a single annual payout opportunity for Mr. Flake.

The payouts under the 2013 Bonus Plan were based on our performance as a company within a range of each component's target. For Mr. Flake, no incentive payment was to be earned for performance below the target minimum and the maximum bonus was to be earned at the target maximum. The range and target for each component applicable to Mr. Flake were as follows:

Achievement Level	Percentage of Bookings and Delivered Revenue Component Attained	Percentage of Gross Margin Component Attained	Corresponding Weighted Payout Percentage Per Component
Minimum	85 %	90 %	50 %
At target	100 %	100 %	100 %
Maximum	120 %	120 %	150 %

In January 2014, the compensation committee modified the gross margin component of the 2013 Bonus Plan, including for Mr. Flake, to exclude certain costs incurred by us in connection with our initial public offering and one-time investments in our business.

The bonus payment as a percentage of the base salary at target of Mr. Flake established by the compensation committee for 2013 was 50%. Mr. Flake was also eligible to participate in an additional $200,000 discretionary bonus pool in the event that we achieved the target bookings, delivered revenue and gross margin metrics. The compensation committee determined these additional bonus amounts were not earned for 2013.

Cash Awards under the 2014 Bonus Plan

Mr. Flake and Ms. Harris participated in the 2014 Bonus Plan, which provided for the amounts earned to be based on the following metrics:

Component	Weighting of Component as a % of Bonus Payment	
	Mr. Flake	Ms. Harris
Bookings	50 %	50 %
Gross Margin	50 %	50 %

The bookings component consisted of monthly recurring bookings revenue based on committed or contracted levels in our customer agreements, with an exclusion for one-time services. The gross margin component consisted of our gross margin calculated in accordance with GAAP, but excluding stock based compensation expenses, capitalization and amortization. The 2014 Bonus Plan provided that the bookings and gross margin components were measured against bookings and gross margin targets based on the 2014 annual budget approved by the board of directors.

The payouts under the 2014 Bonus Plan were based on our performance as a company within a range of each component's target. For Mr. Flake and Ms. Harris, no incentive payment was to be earned for performance below the target minimum and the maximum bonus was to be earned at the target maximum. The range and target for each component applicable to Mr. Flake and Ms. Harris are set forth in the following table:

Achievement Level	Percentage of Bookings and Gross Margin Component Attained	Corresponding Weighted Payout Percentage Per Component
Minimum	90 %	50 %
At target	100 %	100 %
Maximum	120 %	150 %

The bonus payment as a percentage of the base salary at target of each of Mr. Flake and Ms. Harris established by the compensation committee for 2014, are set forth in the following table:

Achievement Level	% Base Salary at Target
Mr. Flake	73 %
Ms. Harris	32 %

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Cash Awards under the 2015 Bonus Plan

Each of our named executive officers participated in the 2015 Bonus Plan, which provided for the amounts earned to be based on the following metrics:

Component	Weighting of Component as a % of Bonus Payment		
	Mr. Flake	Ms. Harris	Mr. Breeden
Revenue	50%	50 %	40 %
Individual Business Objectives	—%	— %	20 %
Gross Margin	50%	50 %	40 %

The revenue component consisted of GAAP revenues. The gross margin component consisted of our gross margin calculated in accordance with GAAP, but excluding stock based compensation expenses, capitalization and amortization. The 2015 Bonus Plan provided that the revenue and gross margin components were measured against revenue and gross margin targets based on the 2015 annual budget approved by the board of directors. The individual business objectives component consisted of business objectives specific to the individual named executive officer and was measured based upon attainment of specified target objectives.

The payouts under the 2015 Bonus Plan were based on our performance as a company within a range of each component's target. For each of our named executive officers, no incentive payment was to be earned for performance below the target minimum and the maximum bonus was to be earned at the target maximum. The range and target for each component applicable to our named executive officers are set forth in the following table:

Achievement Level	Percentage of Revenue and Gross Margin Component Attained	Corresponding Weighted Payout Percentage Per Component
Minimum	95 %	50 %
At target	100 %	100 %
Maximum	120 %	150 %

The bonus payment as a percentage of the base salary at target of each of our named executive officers established by the compensation committee for 2015, are set forth in the following table:

Achievement Level	% Base Salary at Target
Mr. Flake	76 %
Ms. Harris	55 %
Mr. Breeden	46 %

Executive Officers

The following table sets forth information regarding our executive officers as of April 28, 2016.

Name	Age	Position
Matthew P. Flake	44	Chief Executive Officer, President and Director
Jennifer N. Harris	48	Chief Financial Officer
Adam D. Anderson	44	Executive Vice President and Chief Technology Officer
John E. Breeden	43	Executive Vice President of Operations
Barry G. Benton	54	Senior Vice President, General Counsel and Secretary
William L. Furrer	48	Senior Vice President of Product
Sherri L. Manning	49	Senior Vice President of People and Places
Lorrie S. Schultz	49	Senior Vice President of Marketing
Stephen C. Soukup	48	Senior Vice President of Sales

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Matthew P. Flake has served as our President since March 2008, the Chief Executive Officer of Q2 Software, Inc., our sole operating subsidiary, since December 2011 and Q2 Holdings' Chief Executive Officer and a member of our board of directors since October 2013. From June 2005 until March 2008, Mr. Flake served as our Vice President of Sales. Mr. Flake previously served as a Regional Sales Director at S1 Corporation, a provider of Internet-based financial services solutions from 2002 until May 2005. Prior to that, Mr. Flake was a Regional Sales Manager for Q-Up Systems, Inc., a provider of interactive web-based solutions for community banks and credit unions from August 1999 until 2002. Mr. Flake holds a B.A. in Business from Baylor University.

Jennifer N. Harris has served as our Chief Financial Officer since December 2013. From March 2013 to December 2013, Ms. Harris served as our Vice President and Corporate Controller. Prior to joining us, Ms. Harris was the Interim Corporate Controller for Blackbaud, Inc., a provider of software solutions to nonprofit organizations and educational institutions, from May 2012 until November 2012. From April 2005 until May 2012, Ms. Harris held various financial positions with Convio, Inc., a provider of SaaS constituent engagement solutions, most recently as Vice President, Controller and Principal Accounting Officer, from October 2010 until May 2012, when Convio was acquired by Blackbaud. From November 1998 until April 2005, Ms. Harris held a variety of financial positions with Motive, Inc., a provider of service management software for broadband and mobile data services, most recently as Director of Finance and Administration and Corporate Treasurer from April 2003 until April 2005. Ms. Harris holds a B.S. in Business from Indiana University.

Adam D. Anderson has served as our Executive Vice President since November 2011 and Chief Technology Officer since December 2010. From May 2006 until December 2010, Mr. Anderson served as our Chief Information Officer. Prior to joining us, Mr. Anderson held the position of Vice President, Engineering and Support of CipherTrust, Inc., a provider of security solutions for inbound and outbound messaging threats, from November 2003 until May 2006. From July 2001 until November 2003, Mr. Anderson served as Senior Director, Technology Services for S1 Corporation. From November 2000 until July 2001, Mr. Anderson was Vice President, Internet Operations for Q-Up Systems, Inc. Mr. Anderson holds a B.A. in Economics from Indiana University. He has also completed graduate work in Computational Economics at The University of Texas at Austin.

John E. Breeden has served as our Executive Vice President of Operations since February 2013. From November 2011 until February 2013, he served as our Senior Vice President of Implementations. Prior to joining us, Mr. Breeden was Vice President of Corporate Services for Activant Solutions Inc., a provider of business management solutions, from October 2007 until July 2011. Mr. Breeden also served as Activant Solutions' Vice President of Information Technology from June 2005 until October 2007, and its Director of Corporate Planning from October 2002 until June 2005. From January 2002 until October 2002, Mr. Breeden was an enterprise software and process optimization consultant for The North Highland Company, a consulting firm. From January 2001 until January 2002, Mr. Breeden held the position of Product Manager for Claria Corporation, an advertising software company. Mr. Breeden holds a B.B.A. in Finance from The University of Texas at Austin.

Barry G. Benton has served as our Senior Vice President, General Counsel and Secretary since October 2013 and as our General Counsel since January 2011. Prior to joining us, Mr. Benton was in private practice representing us, as well as a number of other large and small business owners and financial institutions in a variety of aspects of their operations, including debt and equity financings, commercial real estate and mergers and acquisitions from January 2009 until October 2010. From September 1995 until January 2009, Mr. Benton was a partner in private practice with various law firms, most recently with Glast, Phillips & Murray, PC from August 2003 until January 2009. Mr. Benton is a past committee member of the Commercial Financial Services Committee of the Business Section of the State Bar of Texas and prior member of the Texas Association of Bank Counsel. Mr. Benton holds a J.D. from St. Mary's University School of Law and a B.A. in Political Science from Texas Tech University.

William M. Furrer has served as our Senior Vice President of Product since December 2014. From July 2013 until December 2014, he served as our Senior Vice President of Product and Marketing and from February 2013 until July 2013 he served as our Senior Vice President of Marketing. Prior to joining us, Mr. Furrer was President of IF Marketing and Advertising, a full service interactive marketing and advertising agency specializing in brand development and integrated marketing campaigns, from July 2001 until January 2013. From September 1999 until December 2001, Mr. Furrer held a number of leadership positions with Q-Up Systems, Inc., including sales engineer, relationship management and web technologies product management. From April 2000 until December 2001, Mr. Furrer was Director of Web Technologies for S1 Corporation. Mr. Furrer holds a B.A. in English from Virginia Tech.

Sherri L. Manning has served as our Senior Vice President of People and Places since February 2015. From October 2011 to February 2015, Ms. Manning served as our VP of People & Places. Prior to joining us, Ms. Manning was a Regional Manager of Human Resources for the Central/South location of International Business Machines Corporation, a multinational technology and consulting corporation from March 2010 to September 2011. Before that, from July 2008 to January 2010, Ms.

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Manning was the Senior Vice President of Human Resources and Ethics for Universal Pegasus International, a provider of professional services to the energy industry. Prior to that Ms. Manning was employed at Dell, Inc., a global computer and technology services company, or Dell, and Colgate Palmolive in a variety of Human Resource roles. Ms. Manning is a member of the Society of Human Resource Professionals and the Oklahoma and Missouri Bar Associations. Ms. Manning holds an L.L.M from Georgetown University, a J.D. from the University of Oklahoma College Of Law, studied EU Law at the University of Oxford and a holds a B.A. in Political Science from Phillips University.

Lorrie S. Schultz has served as our Senior Vice President of Marketing since September 2015. Prior to joining us, Ms. Schultz served in a number of marketing leadership roles with Dell from January 1998 to September 2015, most recently serving as Dell's Executive Director of Emerging Markets (India, Indonesia and Brazil) Consumer, Small Business and Retail Marketing. Ms. Schultz' other roles at Dell included senior marketing leadership roles with Dell's Global Large Enterprise, Consumer and Small and Medium Business and Customer Experience organizations, including the roles of Executive Director of Marketing Mergers and Acquisitions, Executive Director of Talent and Capabilities and Director of the Large Enterprise Customer Engagement Team. Prior to her time at Dell, Ms. Schultz served as a Senior Sales Account Engineer and Software Marketing Manager for Emerson Electric Co., a global technology and engineering company. Ms. Schultz holds a B.S. in Electrical Engineering from The University of Texas at Austin.

Stephen C. Soukup has served as our Senior Vice President of Sales since April 2013 and served as our Vice President of Direct Sales from October 2012 until April 2013. Prior to joining us, Mr. Soukup held a number of sales leadership positions at Intuit Inc., a provider of business and financial management solutions, including roles in direct sales, relationship management and alliances from April 2007 to October 2012. From April 2002 until April 2007, Mr. Soukup served as Senior Director of Relationship Management for S1 Corporation. From June 2000 until April 2002, Mr. Soukup was Business Development Manager for Getronics NV, a provider of branch automation systems and managed desktop and network technology services. Mr. Soukup holds an M.B.A. from Boston University and a B.S. in Finance from Boston College.

Potential Payments Upon Termination and Change in Control

Each of our named executive officers is subject to certain obligations relating to non-competition, non-solicitation, proprietary information and assignment of inventions. Pursuant to these obligations, each named executive officer has agreed (i) not to solicit our employees or customers during employment and for a period of twelve months after the termination of employment, (ii) not to compete with us or assist any other person to compete with us during employment and (iii) to protect our confidential and proprietary information and to assign to us intellectual property developed during the course of employment.

In addition, we have entered into employment agreements with each of our named executive officers. The following is a summary of the employment agreements with our named executive officers as currently in effect.

Matthew P. Flake is party to an amended and restated employment agreement with us effective February 20, 2014. This employment agreement has no specific term and constitutes at-will employment. Mr. Flake's current annual base salary is $450,000. Mr. Flake is also eligible to receive benefits that are substantially similar to those of our other employees. His employment agreement also specifies his eligibility for an annual incentive bonus, which is currently targeted at $400,000 for fiscal 2016. Payment of any bonus to Mr. Flake is subject to approval by our board of directors.

Pursuant to this agreement, in the event that we terminate Mr. Flake's employment for any reason, other than for "cause" (as such term is defined below), we will be obligated to pay him in equal installments over a twelve-month period (i) 100% of his then-current annual base salary and (ii) his then-current annual cash incentive bonus at target for twelve months. Mr. Flake's employment agreement also provides that in the event he voluntarily terminates his employment with us for "good reason" (as such term is defined below), or Mr. Flake is terminated without "cause", in either case within twelve months following a change in control, or if an acquiring company does not assume or substitute for any options held by him, he will be entitled to acceleration of the vesting of all unvested equity awards held by him. Mr. Flake's agreement requires him to provide us with 30 days prior notice of any alleged event of good reason and give us 30 days to cure any such event. The payment of these severance amounts is contingent on Mr. Flake (i) executing a mutual release of claims and (ii) continuing to protect our confidential and proprietary information.

Jennifer N. Harris is party to an employment agreement with us effective February 20, 2014. This employment agreement has no specific term and constitutes at-will employment. Ms. Harris' current annual base salary is $315,000. Ms. Harris is also eligible to receive benefits that are substantially similar to those of our other employees. Her employment agreement also specifies her eligibility for an annual incentive bonus, which is currently targeted at $190,000 for fiscal 2016. Payment of any bonus to Ms. Harris is subject to approval by our board of directors.

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Pursuant to this agreement, in the event that we terminate Ms. Harris' employment for any reason, other than for "cause" (as such term is defined below), we will be obligated to pay her 100% of her then-current annual base salary in equal installments over a twelve-month period. The payment of this severance amount is contingent on Ms. Harris (i) executing a mutual release of claims and (ii) continuing to protect our confidential and proprietary information.

John E. Breeden is party to an employment agreement with us effective February 20, 2014. This employment agreement has no specific term and constitutes at-will employment. Mr. Breeden's current annual base salary is $278,000. Mr. Breeden is also eligible to receive benefits that are substantially similar to those of our other employees. His employment agreement also specifies his eligibility for an annual incentive bonus, which is currently targeted at $153,500 for fiscal 2016. Payment of any bonus to Mr. Breeden is subject to approval by our board of directors.

Pursuant to this agreement, in the event that we terminate Mr. Breeden's employment for any reason, other than for "cause" (as such term is defined below), we will be obligated to pay him 50% of his then-current annual base salary in equal installments over a six-month period. The payment of this severance amount is contingent on Mr. Breeden (i) executing a mutual release of claims and (ii) continuing to protect our confidential and proprietary information.

"Cause" is defined in these employment agreements as a named executive officer's: (i) acts or omissions constituting gross negligence, recklessness or willful misconduct, (ii) material breach of the employment agreement or of his/her non-competition, non-solicitation, confidentiality and intellectual property assignment obligations to us, (iii) conviction or entry of a plea of nolo contendere for fraud, misappropriation, or embezzlement or any felony or crime of moral turpitude, (iv) willful neglect of duties, (v) unsatisfactory performance as determined, with respect to Mr. Flake, by the board of directors, or, with respect to Ms. Harris and Mr. Breeden, by our chief executive officer, (vi) failure to perform essential functions due to mental or physical disability or (vii) death.

"Good reason" is defined in Mr. Flake's employment agreement as: (i) a material reduction in his title or position or an assignment to him of operational authority or duties which are materially inconsistent with the usual and customary operational authority and duties of a person in his position in similarly situated companies, (ii) a material reduction in base compensation or (iii) required relocation to any place outside of a 50-mile radius of our current headquarters.

In addition, each of the named executive officers' equity award agreements provide for potential benefits due upon a termination of employment upon a change in control as described below under "—Change in Control Acceleration."

Change in Control Acceleration

Under our 2007 Stock Plan, or the 2007 Plan, and our 2014 Equity Incentive Plan, or the 2014 Plan, the stock option agreements and restricted stock unit agreements applicable to the named executive officers provide that if the officer, within twelve months of a change of control, (i) is terminated without cause or (ii) resigns for good reason, or if the acquiring company does not assume or substitute for any options or restricted stock units held by such executive officer, then all of the unvested stock options and restricted stock units shall become immediately vested and exercisable in full. "Good reason" has the same definition in these stock option agreements and restricted stock unit agreements as in Mr. Flake's employment agreement described above.

"Cause" is defined in the stock option agreements and restricted stock units agreements as a grantee's: (i) theft, dishonesty, or falsification of our documents or records, (ii) improper use or disclosure of our confidential or proprietary information, (iii) any action which has a material detrimental effect on our reputation or business, (iv) the failure or inability to perform any reasonable assigned duties after written notice from us of, and a reasonable opportunity to cure, such failure or inability, (v) any material breach of any employment agreement with us, which breach is not cured pursuant to the terms of such agreement or (vi) the conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the participant's ability to perform his or her duties with us.

401(k)

We have established a tax-qualified employee savings and retirement plan for all employees who satisfy certain eligibility requirements, including requirements relating to age and length of service. Under our 401(k) plan, employees may elect to reduce their current compensation by up to the statutory limit, $17,500 in 2013 and 2014 and $18,000 in 2015, and have us contribute the amount of this reduction to our 401(k) plan. We intend for our 401(k) plan to qualify under Section 401 of the Code so that contributions by employees or by us to our 401(k) plan and income earned on plan contributions are not taxable to employees until withdrawn from our 401(k) plan. We do not match employee contributions under our 401(k) plan.

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We may in the future choose to make matching contributions or additional contributions to our 401(k) plan in amounts determined annually.

Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for our named executive officers during fiscal 2015.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our named executive officers during fiscal 2015.

Outstanding Equity Awards at December 31, 2015

The following table sets forth information regarding outstanding equity awards held by our named executive officers at December 31, 2015.

	OPTION AWARDS				STOCK AWARDS	
Name	Number of Securities Underlying Unexercised Options Exercisable(1)	Number of Securities Underlying Unexercised Options Unexercisable(1)	Option Exercise Price	Option Expiration Date	Number of Shares or Units That Have not Vested(1)	Market Value of Shares of Units of Stock That Have Not Vested
Matthew P. Flake	85,165 (2)	—	$ 0.29	3/6/2018		
	2,181 (2)	—	$ 0.29	3/6/2018		
	1,084 (3)	—	$ 0.84	5/5/2020		
	200,000 (4)	—	$ 3.10	12/7/2021		
	—	750,000 (5)	$ 8.35	1/24/2021		
	—	112,000 (6)	$ 20.19	2/20/2022		
					47,000 (7)	$ 1,239,390
Jennifer N. Harris	28,118 (8)	23,438 (8)	$ 7.48	5/8/2020		
	82,372 (9)	110,188 (9)	$ 8.35	1/24/2021		
	—	54,000 (6)	$ 20.19	2/20/2022		
					23,000 (7)	$ 606,510
John E. Breeden	1,667 (10)	—	$ 3.10	12/7/2021		
	10,149 (11)	13,750 (11)	$ 6.57	11/7/2019		
	—	150,000 (5)	$ 8.35	1/24/2021		
	—	34,000 (6)	$ 20.19	2/20/2022		
					14,000 (7)	$ 369,180

(1) Shares of common stock.

(2) This option grant was fully vested as of March 1, 2010 and is fully exercisable.

(3) This option grant was fully vested as of March 1, 2014 and is fully exercisable.

(4) This option grant was fully vested as of December 7, 2015 and is fully exercisable.

(5) This option grant vested as to 1/4 of the total option grant on January 24, 2016, and thereafter as to 1/32 of the total option grant monthly.

(6) This option grant vested as to 1/4 of the total option grant on February 20, 2016, and thereafter as to 1/48 of the total option grant monthly.

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(7) These RSUs were granted on February 20, 2015 and vest in four equal annual installments on each anniversary of the grant date.

(8) This option grant vested as to 1/4 of the total option grant on March 18, 2014, and thereafter as to 1/48 of the total option grant monthly.

(9) This option grant vested as to 1/4 of the total option grant on January 24, 2015, and thereafter as to 1/48 of the total option grant monthly.

(10) This option grant was fully vested as of November 14, 2015 and is fully exercisable.

(11) This option grant vested as to 1/4 of the total option grant on November 7, 2013, and thereafter as to 1/48 of the total option grant monthly.

Compensation of Directors

On February 19, 2014 we adopted a director compensation policy, as amended on March 5, 2014 and again on March 12, 2015. Pursuant to the terms of the policy, each non-executive officer director receives an annual cash fee of $30,000, and (i) for the 2015 annual meeting, an annual equity award of $125,000 in stock options, and (ii) for annual meetings thereafter, an annual equity award of $62,500 in stock options and an annual equity award of $62,500 in restricted stock units, or RSUs. The number of options shares is determined by dividing the applicable stated dollar amount above by the fair market value of our common stock on the date of grant. These options will vest monthly over three years, provided that the director continues to serve as a director through such vesting dates. The number of RSU shares is determined by converting the number of shares underlying the annual stock option grant into an equivalent number of RSU shares using our then-applicable ratio of RSUs to options, which ratio shall not exceed one-for-one. In the event that the RSU-to-option ratio would exceed 1 RSU:1 option upon the issuance of RSUs, then the number of RSUs to be issued would be reduced so as to maintain a ratio of 1 RSU: 1 option, and options would be granted in place of any such reduced RSUs. These RSU will vest quarterly over three years, provided that the director continues to serve as a director through such vesting dates. Directors receive an additional $5,000 annually for serving on our financial audit committee, an additional $4,000 annually for serving on our compensation committee, an additional $2,500 annually for serving on our nominating and corporate governance committee and an additional $4,000 annually for serving on the IS audit committee. The chairman of our board of directors receives an additional $60,000 annually, the chairman of our financial audit committee receives an additional $15,000 annually, the chairman of our compensation committee receives an additional $10,000 annually, the chairman of our nominating and corporate governance committee receives an additional $5,000 annually, the chairman of our IS audit committee receives an additional $10,000 annually and our lead independent director receives an additional $100,000 annually. The chairman of our board of directors and our lead independent director can elect to receive their annual fees as chairman or lead independent director, as applicable, in stock options and RSUs, in lieu of cash. If they elect to receive stock options and RSUs in lieu of cash, the number of stock options they would be entitled to receive would equal half of their annual fee divided by the fair market value of our common stock on the date of grant. The number of RSUs they would be entitled to receive would be determined by converting the number of shares underlying their respective chairman and lead independent director stock option grants into an equivalent number of RSU shares using our then-applicable ratio of RSUs to options, which ratio shall not exceed one-for-one. In the event that the RSU-to-option ratio would exceed 1 RSU:1 option upon the issuance of RSUs, then the number of RSUs to be issued would be reduced so as to maintain a ratio of 1 RSU: 1 option, and options would be granted in place of any such reduced RSUs. Such stock options would vest monthly over 12 months and such RSUs would vest quarterly over 12 months, in each case provided that the director continues to serve as a director through such vesting dates. Members of our board of directors are reimbursed for travel and other out-of-pocket expenses in connection with attending meetings.

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The following table sets forth information concerning the compensation earned during the last fiscal year by each director who received such compensation. Our Chief Executive Officer did not receive additional compensation for his service as a director and, consequently, is not included in the table. The compensation received by our Chief Executive Officer as an employee is presented in the Summary Compensation Table:

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(8)	Total ($)
R. H. "Hank" Seale, III(1)	$ 94,000	$ —	$ 94,000
Michael M. Brown(2)	45,500	48,327	93,827
Jeffrey T. Diehl(3)	41,500	48,327	89,827
Charles T. Doyle(4)	51,500	48,327	99,827
Michael J. Maples, Sr.(5)	38,000	48,327	86,327
James R. Offerdahl(6)	50,000	48,327	98,327
Carl James Schaper(7)	151,500	48,327	199,827

(1) As of December 31, 2015, Mr. Seale had 19,252 shares underlying option awards outstanding.

(2) As of December 31, 2015, Mr. Brown had 14,637 shares underlying option awards outstanding.

(3) As of December 31, 2015, Mr. Diehl had 14,637 shares underlying option awards outstanding.

(4) As of December 31, 2015, Mr. Doyle had 27,137 shares underlying option awards outstanding.

(5) As of December 31, 2015, Mr. Maples had 82,637 shares underlying option awards outstanding.

(6) As of December 31, 2015, Mr. Offerdahl had 49,502 shares underlying option awards outstanding.

(7) As of December 31, 2015, Mr. Schaper had 210,407 shares underlying option awards outstanding.

(8) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with FASB ASC Topic 718. Assumptions used in calculating these amounts are described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. As required by SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

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EQUITY COMPENSATION PLAN INFORMATION

We currently maintain three compensation plans that provide for the issuance of our Common Stock to officers and other employees, directors and consultants. These consist of the 2007 Plan, the 2014 Plan, and the 2014 Employee Stock Purchase Plan (the "2014 Purchase Plan"), each of which has been approved by our stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2015:

Plan Category	Number of shares to be issued upon exercise of outstanding options and rights(a)		Weighted-average exercise price of outstanding options and rights(b)		Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column(a))(c)	
Equity compensation plans approved by stockholders	5,043,810	(1)	$ 8.84	(2)	2,563,501	(3)
Equity compensation plans not approved by stockholders	—		—		—	
Total	5,043,810				2,563,501	

(1) Excludes purchase rights accruing under our 2014 Purchase Plan.

(2) The weighted average exercise price is calculated based solely on outstanding stock options. It does not take into account the shares of our common stock underlying RSUs, which have no exercise price.

(3) Includes 1,763,501 shares of common stock available for issuance in connection with future awards under our 2014 Plan and 800,000 shares of common stock available for future issuance under the 2014 Purchase Plan. The 2014 Plan provides that the number of shares reserved for issuance under that plan will automatically increase on January 1, 2017 and each subsequent anniversary through 2024, by an amount equal to the smaller of (i) 4.5% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (ii) an amount determined by the board of directors. The 2014 Purchase Plan provides that the number of shares reserved for issuance under that plan will automatically increase on January 1, 2017 and each subsequent anniversary through 2024 equal to the smallest of (i) 500,000 shares, (ii) 1% of the issued and outstanding shares of our common stock on the immediately preceding December 31 or (iii) such other amount as may be determined by the board of directors.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Related Party Transaction Policy

We have a written policy on authorizations, the Related Party Transactions Policy, which includes specific provisions for related party transactions. Pursuant to the Related Party Transactions Policy, related party transactions include any transaction, arrangement or relationship, or series of such transactions, including any indebtedness or guarantees, in which the amount involved exceeds $120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest. In the event that a related party transaction is identified, such transaction must be reported to our Corporate Secretary and subsequently must be reviewed and approved or ratified by the chairman of our financial audit committee or our full financial audit committee, depending on the amount of the transaction. Any member of the financial audit committee who is one of the parties in the related party transaction and who has a direct material interest in the transaction may not participate in the approval of the transaction. The financial audit committee has pre-approved certain potential related party transactions in advance including employment of executive officers and director compensation.

Related Party Transactions

Since the beginning of fiscal 2015, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds $120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, except for the compensation and other arrangements described in "Compensation of Named Executive Officers and Directors" elsewhere in this proxy statement and the transactions described below.

Stock Options Granted to Executive Officers and Directors

We have granted stock options and RSUs to our executive officers. We have also granted stock options to certain members of our board of directors. For more information regarding certain of these equity awards, see "Compensation of Named Executive Officers and Directors—Summary Compensation Table" and "Compensation of Named Executive Officers and Directors—Compensation of Directors" elsewhere in this Proxy Statement.

Investors' Rights Agreement

We are party to an amended and restated investors' rights agreement with certain of our stockholders. The amended and restated investors' rights agreement grants such stockholders certain registration rights, which include demand registration rights, piggyback registration rights and short-form registration rights, with respect to shares of our common stock.

Employment Agreements

We have entered into employment agreements with certain of our executive officers. These employment agreements provide for severance payments upon termination of the executive in certain circumstances and acceleration of vesting of stock options and restricted stock units upon the occurrence of a change in control. Please see "Compensation of Named Executive Officers and Directors—Potential Payments upon Change in Control" elsewhere in this Proxy Statement for a summary of the potential payments to our named executive officers upon the occurrence of a change in control.

Indemnification of Officers and Directors

As permitted by Delaware law, our amended and restated certificate of incorporation provides that, to the fullest extent permitted by Delaware law, no director will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Pursuant to Delaware law such protection would be not available for liability:

- for any breach of a duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- for any transaction from which the director derived an improper benefit; or

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- for an act or omission for which the liability of a director is expressly provided by an applicable statute, including unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law.

Our amended and restated certificate of incorporation also provides that if Delaware law is amended after the approval by our stockholders of the amended and restated certificate of incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law. In addition, our amended and restated bylaws provide that we are required to advance expenses to our directors and officers as incurred in connection with legal proceedings against them for which they may be indemnified and that the rights conferred in the amended and restated bylaws are not exclusive.

We have entered into indemnity agreements with each of our directors and executive officers. These agreements, among other things, require us to indemnify each director and officer to the fullest extent permitted by Delaware law and our amended and restated certificate of incorporation and bylaws for expenses such as, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as our director or executive officer or as the director or executive officer of any subsidiary of ours or any other company or enterprise to which the person provides services at our request. We also maintain directors' and officers' liability insurance.

Other Related Party Transactions

Charles T. Doyle, a member of our board of directors, is the chairman emeritus of the board of directors and a shareholder of Texas First Bank, a current customer of the Company. Our revenues from Texas First Bank were approximately $332,000, $368,935 and $409,410 in 2013, 2014 and 2015, respectively.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table and footnotes set forth information with respect to the beneficial ownership of our common stock as of March 31, 2016 by:

- each stockholder, or group of affiliated stockholders, who we know beneficially owns more than 5% of the outstanding shares of our common stock;
- each of our named executive officers;
- each of our current directors; and
- all of our current directors and current executive officers as a group.

Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power.

Applicable percentage ownership in the following table is based on 39,194,787 shares of common stock outstanding as of March 31, 2016. Shares of common stock subject to options currently exercisable or exercisable within 60 days of March 31, 2016 or subject to RSUs which will vest within 60 days of March 31, 2016 are deemed to be outstanding for calculating the number and percentage of outstanding shares of the person holding such options, but are not deemed to be outstanding for calculating the percentage ownership of any other person. Beneficial ownership or voting power representing less than 1% is denoted with an asterisk (*).

Shares shown in the table below include shares held in the beneficial owner's name or jointly with others, or in the name of a bank, nominee or trustee for the beneficial owner's account. Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder named in the following table possesses sole voting and investment power over the shares listed, except for those jointly owned with that person's spouse.

Unless otherwise noted below, the address of each person listed on the table is c/o Q2 Holdings, Inc., 13785 Research Blvd., Suite 150, Austin, Texas 78750.

Name of Beneficial Owner	Number of Shares of Common Stock	Percentage of Common Stock Owned	
5% Stockholders:			
Entities affiliated with Adams Street Partners(1)	6,557,963	16.7	%
R. H. "Hank" Seale, III and affiliated entities(2)	4,405,933	11.2	%
Entities affiliated with Battery Ventures(3)	2,712,769	6.9	%
Times Square Capital Management, LLC(4)	2,187,600	5.6	%
Named Executive Officers and Directors:			
Matthew P. Flake(5)	610,830	1.5	%
Jennifer N. Harris(6)	151,216	*	
John E. Breeden(7)	80,501	*	
R. H. "Hank" Seale, III(2)	4,405,933	11.2	%
Michael M. Brown(8)	2,726,632	7.0	%
Jeffrey T. Diehl(1)	6,557,963	16.7	%
Charles T. Doyle(9)	264,036	*	
Michael J. Maples(10)	83,353	*	
James R. Offerdahl(11)	58,487	*	
Carl James Schaper(12)	126,123	*	

All executive officers and directors as a group (16 persons)(13)	15,501,795	38.1	%

(1) Represents 8,478 shares issuable to Jeffrey T. Diehl upon the exercise of options exercisable within 60 days of March 31, 2016, 2,060,469 shares held by Adams Street 2006 Direct Fund, L.P., or AS 2006, 2,326,838 shares held by Adams Street 2007 Direct Fund, L.P., or AS 2007, 779,557 shares held by Adams Street 2008 Direct

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Fund, L.P., or AS 2008, 674,262 shares held by Adams Street 2009 Direct Fund, L.P., or AS 2009, 383,018 shares held by Adams Street 2010 Direct Fund, L.P., or AS 2010, 307,717 shares held by Adams Street 2011 Direct Fund LP, or AS 2011, 4,006 shares held by Adams Street Partnership Fund - 2007 U.S. Fund, L.P. , or AS 2007 US, 5,138 shares held by Adams Street Partnership Fund - 2008 U.S. Fund, L.P., or AS 2008 US, 4,559 shares held by Adams Street Partnership Fund - 2009 U.S. Fund, L.P., or AS 2009 US, 3,207 shares held by Adams Street Partnership Fund - 2010 U.S. Fund, L.P., or AS 2010 US, and 714 shares held by Adams Street Partnership Fund - 2010 U.S. Fund - Series B, L.P., or AS 2010 US Series B. The shares owned by each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2007 US, AS 2008 US, AS 2009 US, AS 2010 US, and AS 2010 US Series B may be deemed to be beneficially owned by Adams Street Partners, LLC, the managing member of the general partner of each of AS 2006, AS 2007, AS 2008, AS 2009 and AS 2010, the managing member of the general partner of the general partner of AS 2011, and the general partner of AS 2007 US, AS 2008 US, AS 2009 US, AS 2010 US, and AS 2010 US Series B. Jeffrey T. Diehl is a partner of Adams Street Partners, LLC (or a subsidiary thereof), and may be deemed to share voting and dispositive power over the shares held by AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2007 US, AS 2008 US, AS 2009 US, AS 2010 US, and AS 2010 US Series B. Mr. Diehl is a member of our board of directors. The address of each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010 and AS 2011 is One North Wacker Drive, Suite 2200, Chicago, Illinois 60606.

(2) Represents 3,992,453 shares held by RHS Investments-I, L.P., 378,650 shares held by Mr. Seale, 21,737 shares held by Mrs. Seale and 13,093 shares issuable to Mr. Seale upon the exercise of options exercisable within 60 days of March 31, 2016. Seale, Inc. is the general partner of RHS Investments-I, L.P. R.H. "Hank" Seale, III is the president of Seale, Inc. and has voting and dispositive power over the shares held by RHS Investments-I, L.P. Mr. Seale is Executive Chairman of our board of directors and served as our President and Chief Executive Officer until October 2013.

(3) Represents 2,685,913 shares held by Battery Ventures IX, L.P., or Battery Ventures IX, and 26,856 shares held by Battery Investment Partners IX, LLC, or BIP IX. Battery Partners IX, LLC, or BPIX, is the sole general partner of Battery Ventures IX and the sole managing member of BIP IX. BPIX's investment adviser is Battery Management Corp. (together with BPIX, the Battery Companies). Neeraj Agrawal, Michael M. Brown, Thomas J. Crotty, Jesse Feldman, Richard D. Frisbie, Kenneth P. Lawler, R. David Tabors, Scott R. Tobin and Roger H. Lee are the managing members and officers of the Battery Companies and may be deemed to share voting and dispositive power over the shares held by the Battery Ventures IX and BIP IX. The address for each of these entities is c/o Battery Ventures, One Marina Park Drive, Suite 1100, Boston, Massachusetts 02210.

(4) Based on a Schedule 13G filed on February 10, 2016. TimesSquare Capital Management, LLC has sole voting power with respect to 2,141,500 shares and sole dispositive power with respect to 2,187,600 shares. Such shares are held by TimesSquare Capital Management, LLC and its wholly owned subsidiaries in a fiduciary capacity. The address of TimesSquare Capital Management, LLC is 7 Times Square, 42nd Floor, New York, New York 10036.

(5) Includes 604,680 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016. Mr. Flake is our current President and Chief Executive Officer and a member of our board of directors.

(6) Includes 147,216 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016. Ms. Harris is our Chief Financial Officer.

(7) Includes 69,941 shares issuable upon exercise of options exercisable within 60 days of March 31, 2016. Mr Breeden is our Executive Vice President of Operations.

(8)

Includes 8,478 shares issuable to Michael M. Brown upon the exercise of options exercisable within 60 days of March 31, 2016 and the shares held by Battery Ventures IX and BIP IX described in footnote (3) above. Mr. Brown is a member of our board of directors.

(9) Represents 243,058 shares held by Texas Independent Bancshares, Inc. and 20,978 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016. Mr. Doyle is the Chairman of the Board of Texas Independent Bancshares, Inc. and as such may be deemed to share voting and dispositive power over the shares held by Texas Independent Bancshares, Inc. Mr. Doyle disclaims beneficial ownership of the shares held by Texas Independent Bancshares, Inc., except to the extent of any pecuniary interest therein. Mr. Doyle is a member of our board of directors.

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(10) Includes 76,478 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016. Mr. Maples is a member of our board of directors.

(11) Includes 43,343 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016. Mr. Offerdahl is a member of our board of directors.

(12) Represents 126,123 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016. Mr. Schaper is a member of our board of directors.

(13) Includes 1,539,684 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2016.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who beneficially own more than 10% of our common stock to file initial reports of beneficial ownership and reports of changes in beneficial ownership with the SEC. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms filed by such person.

Based solely on our review of such forms furnished to us, and written representations from certain reporting persons, we believe that all filing requirements applicable to our executive officers, directors and greater-than-10% stockholders during the fiscal year ended December 31, 2015 were satisfied.

STOCKHOLDER PROPOSALS OR NOMINATIONS
TO BE PRESENTED AT NEXT ANNUAL MEETING

Pursuant to Rule 14a-8 under the Exchange Act of 1934, some stockholder proposals may be eligible for inclusion in our proxy statement for the 2017 annual meeting. These stockholder proposals must be submitted, along with proof of ownership of our stock in accordance with Rule 14a-8(b)(2), to the Corporate Secretary at our principal executive offices no later than the close of business on December 30, 2016 (120 days prior to the anniversary of this year’s mailing date). Failure to deliver a proposal in accordance with these procedures may result in it not being deemed timely received.

Submitting a stockholder proposal does not guarantee that we will include it in our proxy statement. Our nominating and corporate governance committee reviews all stockholder proposals and makes recommendations to the board for actions on such proposals. For information on qualifications of director nominees considered by our nominating and corporate governance committee, see the “Corporate Governance—Director Nominations” section of this Proxy Statement.

In addition, our Bylaws provide that any stockholder intending to nominate a candidate for election to the board or to propose any business at our 2017 annual meeting, other than non-binding proposals presented pursuant to Rule 14a-8 under the Exchange Act, must give notice to the Corporate Secretary at our principal executive offices, not earlier than the close of business on the 120th day (February 9, 2017) nor later than the close of business on the 90th (March 11, 2017) day prior to the first anniversary of the date of the preceding year’s annual meeting as first specified in the notice of meeting (without regard to any postponements or adjournments of such meeting after the notice was first given). The notice must include the information specified in our Bylaws, including information concerning the nominee or proposal, as the case may be, and information concerning the proposing or nominating stockholder’s ownership of and agreements related to our stock. If the 2017 annual meeting is held more than 30 days before or after the first anniversary of the date of the 2016 annual meeting, the stockholder must submit notice of any such nomination and of any such proposal that is not made pursuant to Rule 14a-8 by the later of the 90th day prior to the 2017 annual meeting or the 10th day following the date on which public announcement of the date of such meeting is first made. We will not entertain any proposals or nominations at the meeting that do not meet the requirements set forth in our Bylaws. If the stockholder does not also comply with the requirements of Rule 14a-4(c)(2) under the Exchange Act, we may exercise discretionary voting under proxies that we solicit to vote in accordance with our best judgment on any stockholder proposal or nomination. To make a submission or request a copy of our Bylaws, stockholders should contact our Corporate Secretary. We strongly encourage stockholders to seek advice from knowledgeable counsel before submitting a proposal or a nomination.

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TRANSACTION OF OTHER BUSINESS

At the date of this Proxy Statement, the board of directors knows of no other business that will be conducted at the 2016 annual meeting other than as described in this proxy statement. If any other matter or matters are properly brought before the meeting or any adjournment or postponement of the meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy on such matters in accordance with their best judgment.

STOCKHOLDERS SHARING THE SAME LAST NAME AND ADDRESS

To reduce the expense of delivering duplicate proxy materials to stockholders who may have more than one account holding Q2 stock but sharing the same address, we have adopted a procedure approved by the SEC called "householding." Under this procedure, certain stockholders of record who have the same address and last name, and who do not participate in electronic delivery of proxy materials, will receive only one copy of our Proxy Statement and Annual Report and, as applicable, any additional proxy materials that are delivered until such time as one or more of these stockholders notifies us that they want to receive separate copies. This procedure reduces duplicate mailings and saves printing costs and postage fees, as well as natural resources. Stockholders who participate in householding will continue to have access to and utilize separate proxy voting instructions.

If you receive a single set of proxy materials as a result of householding, and you would like to have separate copies of our annual report and other proxy materials mailed to you, please submit a written request to our Corporate Secretary, Q2 Holdings, Inc., 13785 Research Boulevard, Suite 150, Austin, Texas 78750, or call our Investor Relations department at 512-439-3447, and we will promptly send you what you have requested. You can also contact our Corporate Secretary or Investor Relations department if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future, or if you would like to opt out of householding for future mailings.

By order of the board of directors

Barry G. Benton
Senior Vice President, General Counsel and Secretary

April 28, 2016

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