

Upland Software, Inc.
Form 10-Q
November 14, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-36720

UPLAND SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

State of Delaware 27-2992077
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

401 Congress Avenue, Suite 1850 78701
Austin, Texas
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (512) 960-1010

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at November 1, 2016
Common Stock, \$0.0001 par value	17,841,355

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Item 1. Financial Statements

Upland Software, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except for share and per share information)

	September 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,480	\$ 18,473
Accounts receivable (net of allowance of \$811 and \$581 at September 30, 2016 and December 31, 2015, respectively)	14,679	13,972
Prepaid and other	2,282	2,603
Total current assets	34,441	35,048
Canadian tax credits receivable	1,751	2,018
Property and equipment, net	5,588	6,001
Intangible assets, net	31,217	31,526
Goodwill	68,441	47,422
Other assets	440	399
Total assets	\$ 141,878	\$ 122,414
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,598	\$ 2,548
Accrued compensation	2,165	2,441
Accrued expenses and other	4,571	5,173
Deferred revenue	23,134	19,931
Due to sellers	5,728	2,409
Current maturities of notes payable (includes unamortized discount of \$265 and \$250 at September 30, 2016 and December 31, 2015, respectively)	1,490	1,500
Total current liabilities	39,686	34,002
Canadian tax credit liability to sellers	405	368
Notes payable, less current maturities (includes unamortized discount of \$625 and \$758 at September 30, 2016 and December 31, 2015, respectively)	35,937	22,366
Deferred revenue	139	8
Noncurrent deferred tax liability, net	3,189	2,818
Other long-term liabilities	2,416	2,582
Total liabilities	81,772	62,144
Stockholders' equity:		
Common stock, \$0.0001 par value; 50,000,000 shares authorized: 17,839,507 and 15,746,288 shares issued and outstanding as of September 30, 2016 and December 31, 2015 respectively	2	2
Additional paid-in capital	123,409	112,447
Accumulated other comprehensive loss	(2,875	) (3,289)
Accumulated deficit	(60,430	) (48,890)
Total stockholders' equity	60,106	60,270
Total liabilities and stockholders' equity	\$ 141,878	\$ 122,414

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Upland Software, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except for share and per share information)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue:				
Subscription and support	\$17,029	\$ 14,129	\$48,490	\$ 42,474
Perpetual license	332	540	1,108	2,197
Total product revenue	17,361	14,669	49,598	44,671
Professional services	1,880	2,436	5,795	7,640
Total revenue	19,241	17,105	55,393	52,311
Cost of revenue:				
Subscription and support	5,747	4,771	16,607	14,344
Professional services	1,045	1,677	3,775	5,317
Total cost of revenue	6,792	6,448	20,382	19,661
Gross profit	12,449	10,657	35,011	32,650
Operating expenses:				
Sales and marketing	3,097	2,929	9,119	9,907
Research and development	3,737	3,852	11,701	11,930
Refundable Canadian tax credits	(115)	(115)	(340)	(358)
General and administrative	4,670	4,494	13,340	14,327
Depreciation and amortization	1,322	1,130	4,270	3,207
Acquisition-related expenses	1,047	176	4,855	1,081
Total operating expenses	13,758	12,466	42,945	40,094
Loss from operations	(1,309)	(1,809)	(7,934)	(7,444)
Other expense:				
Interest expense, net	(709)	(462)	(1,932)	(1,385)
Other expense, net	(64)	137	(1,105)	(387)
Total other expense	(773)	(325)	(3,037)	(1,772)
Loss before provision for income taxes	(2,082)	(2,134)	(10,971)	(9,216)
Provision for income taxes	(308)	(190)	(569)	(185)
Net loss	\$(2,390)	\$(2,324)	\$(11,540)	\$(9,401)
Net loss per common share:				
Net loss per common share, basic and diluted	\$(0.14)	\$(0.16)	\$(0.71)	\$(0.63)
Weighted-average common shares outstanding, basic and diluted	16,702,062	14,934,796	16,339,983	14,882,893

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Upland Software, Inc.
 Condensed Consolidated Statements of Comprehensive Loss
 (In thousands)
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$(2,390)	\$(2,324)	\$(11,540)	\$(9,401)
Foreign currency translation adjustment	(67)	(757)	414	(1,245)
Comprehensive loss	\$(2,457)	\$(3,081)	\$(11,126)	\$(10,646)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Upland Software, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net loss	\$(11,540)	\$(9,401)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,499	6,077
Deferred income taxes	251	450
Foreign currency re-measurement (gain) loss	(222)	) 779
Non-cash interest and other expense	196	312
Non-cash stock compensation expense	2,664	1,990
Loss on disposal of business	686	—
Changes in operating assets and liabilities, net of purchase business combinations:		
Accounts receivable	310	3,689
Prepays and other	820	1,097
Accounts payable	(126)	) 40
Accrued expenses and other liabilities	(828)	) (2,069)
Deferred revenue	1,425	(1,293)
Net cash provided by operating activities	1,135	1,671
Investing activities		
Purchase of property and equipment	(886)	) (461)
Purchase of customer relationships	(408)	) (372)
Purchase business combinations, net of cash acquired	(11,846)	) (2,714)
Net cash used in investing activities	(13,140)	) (3,547)
Financing activities		
Payments on capital leases	(1,320)	) (767)
Proceeds from notes payable, net of issuance costs	14,925	24,088
Payments on notes payable	(1,560)	) (23,592)
Issuance of common stock, net of issuance costs	197	62
Additional consideration paid to sellers of businesses	(1,484)	) (9)
Net cash provided by (used in) financing activities	10,758	(218)
Effect of exchange rate fluctuations on cash	254	(200)
Change in cash and cash equivalents	(993)	) (2,294)
Cash and cash equivalents, beginning of period	18,473	30,988
Cash and cash equivalents, end of period	\$17,480	\$28,694
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$1,707	\$1,108
Cash paid for taxes	\$518	\$327
Noncash investing and financing activities:		
Equipment acquired pursuant to capital lease obligations	\$802	\$1,796
Issuance of common stock in business combination	\$8,100	\$—

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Upland Software, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. In the opinion of management of the Company, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for any other period. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2015 Annual Report on Form 10-K filed with the SEC on March 30, 2016.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses. Significant items subject to such estimates include allowance for doubtful accounts, stock-based compensation, contingent consideration, acquired intangible assets, the useful lives of intangible assets and property and equipment, and income taxes. In accordance with GAAP, management bases its estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ from those estimates.

Concentrations of Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are placed with high-quality financial institutions, which, at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts, and the Company does not believe it is exposed to any significant credit risk related to cash and cash equivalents. The Company provides credit, in the normal course of business, to a number of its customers. The Company performs periodic credit evaluations of its customers and generally does not require collateral. No individual customer represented more than 10% of total revenues in the three and nine months ended September 30, 2016 or 2015 or for the year ended December 31, 2015, or more than 10% of accounts receivable as of September 30, 2016 or December 31, 2015.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, and accounts payable, and long-term debt. The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value, primarily due to short maturities. The carrying values of the Company's debt instruments approximated their fair value based on rates currently available to the Company.

Recent Accounting Pronouncements

In May 2014, the FASB issued FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In August 2015, the FASB issued FASB ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, using one of two retrospective application methods. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the effect that the adoption of ASU 2014-09 and ASU 2015-14 will have on its financial statements as well as timing of adoption and method of adoption.

In August 2014, the FASB issued FASB ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our financial statements. The Company does not intend to adopt this standard prior to the effective date.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 eliminates the requirement for an entity to separate deferred income taxes and liabilities into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. As all deferred tax assets and liabilities recognized in the balance sheet as of December 31, 2015 were noncurrent, the early adoption of this guidance in the first quarter of 2016, using retrospective application, does not result in any reclassification as of December 31, 2015.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The core change with ASU 2016-02 is the requirement for the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect that the adoption of ASU 2016-02 will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718). The core change with ASU 2016-09 is the simplification of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classifications of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the effect that the adoption of ASU 2016-09 will have on its financial statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing. The amendments in ASU 2016-10 do not change the core principle of the guidance in Topic 606. Rather, the amendments in ASU 2016-10 clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related

principles for those areas. The Company is currently evaluating the effect that the adoption of ASU 2016-10 will have on its financial statements.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow Scope Improvements and Practical Expedients. The amendments in ASU 2016-12 do not change the core principle of the guidance in Topic 606. Rather, the amendments clarify the following aspects of Topic 606: assessing the collectibility, presentation of sales taxes, noncash consideration, contract modifications at transition, completed contracts at modification, and retrospective application, while retaining the related principles for those areas. The Company is currently evaluating the effect that the adoption of ASU 2016-12 will have on its financial statements.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments”, which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the effect that the adoption of ASU 2016-13 will have on its financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect that the adoption of ASU 2016-15 will have on its financial statements.

2. Acquisitions

2016 Acquisitions

On January 7, 2016, Upland completed its purchase of substantially all of the assets of our California-based website analytics provider. The purchase price consideration paid was approximately \$8.1 million in cash payable at closing (net of \$0.3 million of cash acquired) and a \$1.2 million cash holdback payable in 12 months (subject to indemnification claims). The foregoing excludes additional potential earnout payments tied to performance-based conditions. Revenues recorded since the acquisition date through September 30, 2016 were approximately \$2,365,000.

In addition to the cash consideration described above, the Asset Purchase Agreement included a contingent share consideration component pursuant to which Upland issued an aggregate of \$2.4 million in common stock on July 25, 2016. The Company agreed to additional consideration of up to \$5 million in cash to the selling shareholders of our website analytics business based on the achievement of certain revenue targets during fiscal years 2016 and 2017.

On March 14, 2016, Upland completed its purchase of substantially all of the assets of Hipcricket, Inc., a cloud-based mobile messaging software provider. The consideration paid to the seller consisted of our issuance of one million shares of our common stock and the transfer of our EPM Live product business. The value of the shares on the closing date of the transaction was approximately \$5.7 million and the fair value of our EPM Live product business was approximately \$5.9 million. The Company recognized a loss on the transfer in conjunction with the EPM Live net asset value of approximately \$0.7 million in Other expense, net. Prior to the transaction, Hipcricket was owned by an affiliate of ESW Capital, LLC, which is a shareholder of Upland. Raymond James & Co. provided a fairness opinion to Upland in connection with the transaction. Revenues recorded since the acquisition date through September 30, 2016 were approximately \$2,447,000.

On April 27, 2016, Upland acquired Advanced Processing & Imaging, Inc., a content management platform driving workflow in governments and schools. The purchase price consideration consisted of \$4.0 million in cash payable at

closing (net of \$0.2 million of cash acquired), and a \$0.8 million cash holdback payable in 12 months (subject to indemnification claims). Revenues recorded since the acquisition date through September 30, 2016 were approximately \$1,088,000.

The Company recorded the purchase of the acquisitions described above using the acquisition method of accounting and, accordingly, recognized the assets acquired and liabilities assumed at their fair values as of the date of the acquisition. The purchase price allocations for the 2015 acquisition of Ultriva and the 2016 acquisitions of our website analytics business, Hipcricket and API are preliminary as the Company has not obtained and evaluated all of the detailed information necessary to finalize the opening balance sheet amounts in all respects. Management has recorded the purchase price allocations based upon acquired company information that is currently available. Management expects to finalize its purchase price allocations in the latter half of 2016.

The following condensed table presents the preliminary acquisition-date fair value of the assets acquired and liabilities assumed for the acquisitions, as well as assets and liabilities (in thousands):

Year Acquired or Divested	Website		
	API	HipCricket	Analytics Business
	2016	2016	2016
Cash	\$125	\$—	\$290
Accounts receivable	769	1,275	178
Other current assets	54	238	55
Property and equipment	68	—	5
Customer relationships	1,590	1,900	2,310
Trade name	40	70	70
Technology	780	900	1,390
Goodwill	3,363	7,747	12,524
Other assets	92	—	6
Total assets acquired	6,881	12,130	16,828
Accounts payable	(11)	(200)	—
Accrued expense and other	(170)	—	(178)
Deferred revenue	(1,700)	(330)	(910)
Total liabilities assumed	(1,881)	(530)	(1,088)
Total consideration	\$5,000	\$11,600	\$15,740

Tangible assets were valued at their respective carrying amounts, which approximates their estimated fair value. The valuation of identifiable intangible assets reflects management's estimates based on, among other factors, use of established valuation methods. Customer relationships were valued using an income approach, which estimates fair value based on the earnings and cash flow capacity of the subject asset. The value of the marketing-related intangibles was determined using a relief-from-royalty method, which estimates fair value based on the value the owner of the asset receives from not having to pay a royalty to use the asset. Developed technology was valued using a cost-to-recreate approach.

Goodwill deductible for tax purposes is \$4.9 million for our website analytics business acquisition and \$8.2 million for HipCricket. There was no Goodwill deductible for tax purposes for our API acquisition.

3. Fair Value Measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP sets forth a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three tiers are Level 1, defined as observable inputs, such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

Changes to the fair value of earnout liabilities are recorded to other expense, net. Liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Earnout consideration liability	\$—	—\$ 500	\$500	

	Fair Value Measurements at September 30, 2016 (unaudited)			
	Level 1	Level 2	Level 3	Total
Earnout consideration liability	\$—	—\$3,100	\$3,100	

The earnout consideration liability consists of amounts associated with the acquisitions of Mobile Commons and our website analytics business acquisition. The fair value of the earnout consideration associated with the Mobile Commons acquisition was determined using the Binary Option model based on the present value of the probability-weighted earnout consideration. This \$0.5 million Level 3 earnout consideration liability was removed through settlement during the nine months ended September 30, 2016. The \$3.1 million addition to fair value of the earnout consideration associated with our website analytics business acquisition was determined using the Monte Carlo Simulation method based on the present value of the probability-weighted earnout consideration. The Monte Carlo Simulation method includes assumptions as to probability of various outcomes and, accordingly, the actual contingent consideration incurred could vary from the current estimate. However, the total contingent consideration incurred would not exceed the maximum potential payout of \$5.0 million in cash and \$2.4 million in common stock (which was fully issued during July, 2016). In conjunction with the contingent stock consideration, the increase in fair value issued over carrying value of \$80 thousand was recorded in Other Expense (see Note 2).

The following table presents additional information about liabilities measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value:

Beginning balance at January 1, 2016	500
Additions - stock earnouts	2,320
Additions - cash earnouts	3,100
Change in fair value - stock earnouts	80
Settlements - cash earnouts	(500)
Settlements - stock earnouts	(2,400)
Ending balance at December 31, 2016	3,100

Debt

The Company believes the carrying value of its long-term debt at September 30, 2016 approximates its fair value based on the variable interest rate feature or based upon interest rates currently available to the Company.

The estimated fair value of our debt at September 30, 2016 and December 31, 2015 is \$38.3 million and \$24.9 million, respectively, based on valuation methodologies using interest rates currently available to the Company which are Level 2 inputs.

4. Goodwill and Other Intangible Assets

Changes in the Company's goodwill balance for the nine months ended September 30, 2016 are summarized in the table below (in thousands):

Balance at December 31, 2015	\$47,422
Acquired in business combinations	23,934
Divestiture of business	(3,673)
Adjustment due to prior year business combinations	48
Foreign currency translation adjustment	710
Balance at September 30, 2016	\$68,441

Intangible assets, net, include the estimated acquisition-date fair values of customer relationships, marketing-related assets, and developed technology that the Company recorded as part of its business acquisitions.

The following is a summary of the Company's intangible assets, net (in thousands):

	Estimated Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2015:				
Customer relationships	1-10	\$ 31,848	\$ 9,054	\$ 22,794
Trade name	1-3	2,909	2,476	433
Developed technology	4-7	13,808	5,509	8,299
Total intangible assets		\$ 48,565	\$ 17,039	\$ 31,526

	Estimated Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2016:				
Customer relationships	1-10	\$ 33,990	\$ 11,749	\$ 22,241
Trade name	1.5-3	2,642	2,371	271
Developed technology	4-7	15,298	6,593	8,705
Total intangible assets		\$ 51,930	\$ 20,713	\$ 31,217

The following table summarizes the Company's weighted-average amortization period, in total and by major finite-lived intangible asset class (in years), as of:

	September 30, 2016	December 31, 2015
Customer relationships	9.3	9.3
Trade name	2.8	2.9
Developed technology	6.3	6.4
Total weighted-average amortization period	8.1	8.1

The Company periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in either a diminished fair value or revised useful life. There have been no indicators of impairment or change in the useful life during the three and nine months ended September 30, 2016 and 2015. Total amortization expense was \$5.6 million and \$4.5 million during the nine months ended September 30, 2016 and 2015, respectively.

Estimated annual amortization expense for the next five years and thereafter is as follows (in thousands):

	Amortization Expense
Year ending December 31:	
Remainder of 2016	\$ 1,620
2017	6,097
2018	5,752
2019	4,939
2020 and thereafter	12,809
Total	\$ 31,217

5. Income Taxes

The Company's income tax provision for the three and nine months ended September 30, 2016 and 2015 reflects its estimate of the effective tax rates expected to be applicable for the full years, adjusted for any discrete events that are recorded in the period in which they occur. The estimates are reevaluated each quarter based on the estimated tax expense for the full year. The tax provision for the three and nine months ended September 30, 2016 and 2015 is primarily related to foreign income taxes associated with our Canadian operations, changes in deferred tax liabilities associated with amortization of United States tax deductible goodwill and state taxes in certain states in which the Company does not file on a consolidated basis. The Company has historically incurred operating losses in the United States and, given its cumulative losses and limited history of profits, has recorded a valuation allowance against its United States net deferred tax assets, exclusive of tax deductible goodwill, at September 30, 2016 and 2015.

The Company has reflected any uncertain tax positions within its current taxes payable, but none in deferred taxes. Federal, state, and foreign income tax returns have been filed in jurisdictions with varying statutes of limitations. Varying among the separate companies, tax years 1998 through 2015 remain subject to examination by federal and most state tax authorities due to our net operating loss carryforwards. In the foreign jurisdictions, tax years 2008 through 2015 remain subject to examination.

6. Net Loss Per Share

The following table sets forth the computations of loss per share (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net Loss	\$(2,390)	\$(2,324)	\$(11,540)	\$(9,401)
Denominator:				
Weighted-average common shares outstanding, basic and diluted	16,702,061	14,934,796	16,339,983	14,882,893
Net loss per common share, basic and diluted	\$(0.14)	\$(0.16)	\$(0.71)	\$(0.63)

Due to the net losses for the three and nine months ended September 30, 2016 and 2015, basic and diluted loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive. The following table sets forth the anti-dilutive common share equivalents (which does not include 318,302 common shares issued July 25, 2016 in conjunction with the acquisition of our website analytics business, as a result of the achievement of certain revenue targets):

	September 30,	
	2016	2015
Stock options	780,645	616,705
Restricted stock	1,055,738	431,872
Total anti-dilutive common share equivalents	1,836,383	1,048,577

7. Commitments and Contingencies

Purchase Commitments

The Company has an outstanding purchase commitment for software development services pursuant to a technology services agreement in the amount of \$2.3 million in 2016, of which \$1.7 million was incurred during the nine months ended September 30, 2016. For years after 2016, the purchase commitment amount for software development services will be equal to the prior year purchase commitment increased (decreased) by the percentage change in total revenue for the prior year as compared to the preceding year. For example, if 2016 total revenues increase by 10% as compared to 2015 total revenues, then the 2017 purchase commitment would increase by approximately \$0.2 million from the 2016 purchase commitment amount to \$2.6 million. A similar 10% increase in 2017 total revenues as compared to 2016 total revenues would increase the 2018 purchase commitment amount from the theoretical 2017 purchase commitment amount of \$2.6 million by approximately \$0.3 million to \$2.9 million.

Litigation

In the normal course of business, the Company may become involved in various lawsuits and legal proceedings. While the ultimate results of these matters cannot be predicted with certainty, the Company does not expect them to have a material adverse effect on the consolidated financial position or results of operations of the Company.

8. Stockholders' Equity

Restricted Stock Awards

Restricted share activity during the nine months ended September 30, 2016 was as follows:

	Number of Restricted Shares Outstanding	Weighted-Average Grant Date Fair Value
Unvested balances at December 31, 2015	513,943	\$ 8.15
Awards granted	728,681	
Awards vested	(136,886)	
Awards forfeited	(50,000)	
Unvested balances at September 30, 2016	981,175	\$ 7.42

Stock Option Activity

Stock option activity during the nine months ended September 30, 2016 was as follows:

	Number of Options Outstanding	Weighted- Average Exercise Price
Outstanding at December 31, 2015	778,388	\$ 5.75
Options granted	137,586	\$ 7.74
Options exercised	(39,564)	\$ 4.99
Options forfeited	(60,726)	\$ 7.14
Options expired	(35,039)	\$ 4.85
Outstanding at September 30, 2016	780,645	\$ 6.06

Share-based Compensation

The Company recognized share-based compensation expense from all awards in the following expense categories (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Cost of subscription and support revenue	\$13	\$17	\$27	\$41
Cost of professional services revenue	—	1	1	(7)
Sales and marketing	21	5	66	55
Research and development	38	69	80	189
General and administrative	1,028	563	2,490	1,712
Total	\$1,100	\$655	\$2,664	\$1,990

9. Domestic and Foreign Operations

Revenue by geography is based on the ship-to address of the customer, which is intended to approximate where the customer's users are located. The ship-to country is generally the same as the billing country. The Company has operations in the U.S., Canada and Europe. Information about these operations is presented below (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Revenues:				
U.S.	\$16,240	\$14,271	\$46,403	\$42,530
Canada	1,058	981	3,071	3,204
Other International	1,943	1,853	5,919	6,577
Total Revenues	\$19,241	\$17,105	\$55,393	\$52,311

10. Related Party Transactions

The Company purchased software development services pursuant to a technology services agreement with a company controlled by a non-management investor in the Company during the three months ended September 30, 2016 and 2015 in the amount of \$587,000 and \$550,000 and during the nine months ended September 30, 2016 and 2015 in the amount of \$1,732,000 and \$1,425,000, respectively. Refer to Note 7 for a description of purchase commitments to this company.

When the Company receives requested services as detailed by statements of work pursuant to the software development agreement, it determines whether such software development costs should be capitalized as either internally-used software or software to be sold or otherwise marketed. If such costs are not capitalizable, the Company expenses such costs as the services are received. If the Company anticipates that it will not utilize the full amount of the annual minimum fee, the estimated unused portion of the annual minimum fee is expensed at that time.

The Company also purchased approximately \$553,000 and \$1,147,000 in services from a company controlled by a non-management investor in the Company during the three and nine months ended September 30, 2016. There are no purchase commitments with this company, and the Company continues to use their services in 2016.

The Company has an arrangement with a former subsidiary to provide management, human resource/payroll and administrative services, the fees for which during 2015 totaled \$360,000 and are expected to be similar in 2016, and these fees during the three and nine months ended September 30, 2016 and 2015 totaled \$90,000 and \$270,000, respectively, in both periods.

On March 14, 2016, Upland completed its purchase of substantially all of the assets of Hipcricket, Inc., a cloud-based mobile messaging software provider, and completed the transfer of its EPM Live product business. Prior to the transaction, Hipcricket was owned by an affiliate of ESW Capital, LLC, which is a shareholder of Upland. Raymond James & Co. provided a fairness opinion to Upland in connection with the transaction. Refer to Note 3 for a description of the transaction. Relating to this transaction, the Company is providing certain transition services to and receiving certain transition services from the affiliate. The cost offsets earned by the Company for these services during the three and nine months ended September 30, 2016 totaled \$0 and \$706,000 and the fees owed to the affiliate by the Company for these services during the three and nine months ended September 30, 2016 totaled \$0 and \$144,000, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Forward-looking statements may be identified by the use of forward-looking words such as "anticipate," "believe," "may," "will," "continue," "seek," "estimate," "intend," "hope," "predict," "could," "should," "would," "project," "plan," "expect" or the plural of these words or similar expressions, although not all forward-looking statements contain these words. Factors or risks that could cause our actual results to differ from the results we anticipate include, but are not limited to:

- our financial performance and our ability to achieve or sustain profitability or predict future results;
- our ability to attract and retain customers;
- our ability to deliver high-quality customer service;
- the growth of demand for enterprise work management applications;
- our ability to effectively manage our growth;
- our ability to consummate and integrate acquisitions;
- maintaining our senior management team and key personnel;
- our ability to maintain and expand our direct sales organization;
- our ability to obtain financing in the future on acceptable terms or at all;
- our ability to adapt to changing market conditions and competition;
- our ability to successfully enter new markets and manage our international expansion;
- the operation and reliability of our third-party data centers and hosting providers;
- our ability to manage our consultants and contractors;
- our ability to adapt to technological change and continue to innovate;
- economic and financial conditions;
- our ability to integrate our applications with other software applications;
- maintaining and expanding our relationships with third parties;
- costs associated with defending intellectual property infringement and other claims;
- our ability to maintain, protect and enhance our brand and intellectual property;
- our ability to comply with privacy laws and regulations; and

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other risk factors included under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 30, 2016, as updated by this Quarterly Report on Form 10-Q.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from our forward-looking statements, including those factors discussed in Part I: “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 30, 2016, as updated by Part II, Item 1A: “Risk Factors” of this Quarterly Report on Form 10-Q and other risks and uncertainties detailed in this and our other reports and filings with the SEC. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

Upland is a leading provider of cloud-based enterprise work management software. We define enterprise work management software as software applications that enable organizations to plan, manage and execute projects and work. Our family of applications enables users to manage their projects, professional workforce and IT investments, automate document-intensive business processes and effectively engage with their customers, prospects and community via the web and mobile technologies.

Our applications are easy-to-use, highly scalable and offer real-time collaboration for knowledge workers distributed on a local or global scale. Our applications address enterprise work challenges in the following categories:

• **Project and Information Technology (IT) Financial Management.** Enables customers to manage their organization’s projects, professional workforce and IT costs.

• **Workflow Automation.** Enables customers to automate document-intensive workflows among internal functional areas as well as with their partners and supply chain.

• **Digital Engagement.** Enables customers to effectively engage with their customers, prospects and community via the web and mobile technologies.

We sell our software applications primarily through a direct sales organization comprised of inside sales and field sales personnel. In addition to our direct sales organization, we have an indirect sales organization, which sells to distributors and value-added resellers. We employ a land-and-expand go-to-market strategy. After we demonstrate the value of an initial application to an organization, our sales and account management teams work to expand the adoption of that application across the organization. Our customer success organization supports our direct sales efforts by managing the post-sale customer lifecycle. We refer to our customer relationships representing greater than \$25,000 in annualized recurring revenue as major customers and expansions with respect to a single customer of greater than \$25,000 in annualized recurring revenue as major expansions.

Our subscription agreements are typically sold either on a per-seat basis or on a minimum contracted volume basis with overage fees, depending on the application being sold. We service customers ranging from large global corporations and government agencies to small- and medium-sized businesses. We have more than 2,000 customers with over 235,000 users across a broad range of industries, including financial services, retail, technology, manufacturing, education, consumer goods, media, telecommunications, government, food and beverage, healthcare and life sciences.

We have achieved significant growth and scale in a relatively short period of time. Through a series of acquisitions, we have established a diverse family of software applications under the Upland brand, each of which addresses a specific enterprise work management need. Our revenue has grown from \$22.8 million in fiscal 2012 to \$69.9 million in fiscal 2015, representing a 207% period-over-period growth rate. See Note 9 in the Notes to

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Consolidated Financial Statements in this 10-Q for more information regarding our revenue as it relates to domestic and foreign operations.

Our operating results in a given period can fluctuate based on the mix of subscription and support, perpetual license and professional services revenue. For the years ended December 31, 2015, 2014, and 2013, our subscription and support revenue accounted for 82%, 75% and 75% of our total revenue, respectively, and 88% for the nine months ended September 30, 2016. Our customer agreements for program and portfolio management, project management and collaboration, and professional services automation typically are sold on a per-seat basis with terms varying from one to three years, paid in advance. Our customer agreements for workflow automation and enterprise content management and financial management historically have been typically sold on a volume basis with a one-year term, paid in advance. We generally seek to enter into multi-year contracts with our customers when possible. In each case, our customer agreements provide us with revenue visibility over a number of quarters. We typically negotiate the total number of seats or total minimum contracted volume a customer is entitled to use as part of its subscription, but these seats or minimum contracted volume may not be fully utilized over the term of the agreement. In addition, typically when customers exceed the minimum contracted volume, additional overage fees are charged.

Historically, we have sold certain of our applications under perpetual licenses, which also are paid in advance. For the years ended December 31, 2015, 2014, and 2013, our perpetual license revenue accounted for 4%, 4%, and 5% of our total revenue, respectively and 2% for the nine months ended September 30, 2016. We expect perpetual license revenue to decrease as a percentage of revenue in the future. The support agreements related to our perpetual licenses are typically one-year or greater in duration and entitle the customer to support and unspecified upgrades. The revenue related to such support agreements is included as part of our subscription and support revenue.

Professional services revenue consists of fees related to implementation, data extraction, integration and configuration and training on our applications. For the years ended December 31, 2015, 2014, and 2013, our professional services revenue accounted for 14%, 21%, and 20% of our total revenue, respectively and 10% for the nine months ended September 30, 2016. We expect the proportional revenue contribution of product and professional services revenue to shift more to product revenue and less to professional services revenue in future periods.

We have historically experienced seasonality in terms of when we enter into customer agreements. We sign a significantly higher percentage of agreements with new customers, and renew agreements with existing customers, in the fourth quarter of each calendar year as our customers tend to follow budgeting cycles at the end of the calendar year. Our cash flow from operations has historically been higher in the first quarter of each calendar year than in other quarters. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue due to the fact that we defer revenue recognition. In addition, seasonality may be difficult to observe in our financial results during periods in which we acquire businesses. We expect this seasonality to continue, or possibly increase in the future, which may cause fluctuations in our operating results and financial metrics.

To support continued growth, we intend to pursue acquisitions of complementary technologies, products and businesses to enhance the features and functionalities of our applications, expand our customer base, and provide access to new markets and increased benefits of scale. We will prioritize acquisitions within the enterprise functions we currently serve, including information technology, process excellence, finance, professional services and marketing, as well as pursue acquisitions that serve other enterprise functions. Consistent with our growth strategy, we have made twelve acquisitions since our initial acquisition in 2012 through the period ending September 30, 2016.

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Key Metrics

In addition to the GAAP financial measures described below in “—Components of Operating Results,” we regularly review the following key metrics to evaluate and identify trends in our business, measure our performance, prepare financial projections and make strategic decisions.

Adjusted EBITDA

Adjusted EBITDA. We monitor our Adjusted EBITDA to help us evaluate the effectiveness and efficiency of our operations. Adjusted EBITDA is a non-GAAP financial measure. We define Adjusted EBITDA as net income (loss), calculated in accordance with GAAP, plus net income (loss) from discontinued operations, depreciation and amortization expense, interest expense, net, other expense (income), net, provision for income taxes, stock-based compensation expense, acquisition-related expenses, non-recurring litigation costs, and purchase accounting adjustments for deferred revenue.

The following table presents a reconciliation of net loss from continuing operations, the most comparable GAAP measure, to Adjusted EBITDA for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Reconciliation of Net loss to Adjusted EBITDA:				
Net Loss	\$(2,390)	\$(2,324)	\$(11,540)	\$(9,401)
Add:				
Depreciation and amortization expense	2,424	2,037	7,499	6,077
Interest expense, net	709	462	1,932	1,385
Other expense (income), net	64	(137)	1,105	387
Provision for (benefit from) income taxes	308	190	569	185
Stock-based compensation expense	1,100	655	2,664	1,990
Acquisition-related expense	1,047	176	4,855	1,081
Nonrecurring litigation expense	—	—	25	371
Purchase accounting deferred revenue discount	313	41	1,245	238
Adjusted EBITDA	\$3,575	\$1,100	\$8,354	\$2,313

We believe that Adjusted EBITDA provides useful information to management, investors and others in understanding and evaluating our operating results for the following reasons:

Adjusted EBITDA is widely used by investors and securities analysts to measure a company’s operating performance without regard to items that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;

our management uses Adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, in the preparation of our annual operating budget, as a measure of our operating performance, to assess the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance because Adjusted EBITDA eliminates the impact of items that we do not consider indicative of our core operating performance; and

- Adjusted EBITDA provides more consistency and comparability with our past financial performance, facilitates period-to-period comparisons of our operations and also facilitates comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Adjusted EBITDA should not be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP. The use of Adjusted EBITDA has limitations, including:

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depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect cash requirements for such replacements; however, much of the depreciation and amortization currently reflected relates to amortization of acquired intangible assets as a result of business combination purchase accounting adjustments, which will not need to be replaced in the future; Adjusted EBITDA may not reflect changes in, or cash requirements for, our working capital needs or contractual commitments;

Adjusted EBITDA does not reflect the potentially dilutive impact of stock-based compensation;

Adjusted EBITDA does not reflect interest or tax payments that could reduce cash available for use; and, other companies, including companies in our industry, might calculate Adjusted EBITDA or similarly titled measures differently, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider Adjusted EBITDA together with other financial performance measures, including various cash flow metrics, net loss and our other GAAP results.

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Results of Operations

Consolidated Statements of Operations Data

The following tables set forth our results of operations for the specified periods, as well as our results of operations for the specified periods as a percentage of revenue. The period-to-period comparisons of results of operations are not necessarily indicative of results for future periods.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015		2016	2015	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
(dollars in thousands, except share and per share data)						
Revenue:						
Subscription and support	\$17,029	89 %	\$14,129	83 %	\$48,490	88 %
Perpetual license	332	2 %	540	3 %	1,108	2 %
Total product revenue	17,361	91 %	14,669	86 %	49,598	90 %
Professional services	1,880	9 %	2,436	14 %	5,795	10 %
Total revenue	19,241	100 %	17,105	100 %	55,393	100 %
Cost of revenue:						
Subscription and support ⁽¹⁾⁽³⁾	5,747	30 %	4,771	28 %	16,607	30 %
Professional services ⁽¹⁾	1,045	5 %	1,677	10 %	3,775	7 %
Total cost of revenue	6,792	35 %	6,448	38 %	20,382	37 %
Gross profit	12,449	65 %	10,657	62 %	35,011	63 %
Operating expenses:						
Sales and marketing ⁽¹⁾	3,097	16 %	2,929	17 %	9,119	16 %
Research and development ⁽¹⁾	3,737	19 %	3,852	23 %	11,701	21 %
Refundable Canadian tax credits	(115)	(1)%	(115)	(1)%	(340)	(1)%
General and administrative ⁽¹⁾⁽²⁾	4,670	24 %	4,494	26 %	13,340	24 %
Depreciation and amortization	1,322	7 %	1,130	7 %	4,270	8 %
Acquisition-related expenses	1,047	7 %	176	1 %	4,855	10 %
Total operating expenses	13,758	72 %	12,466	73 %	42,945	78 %
Loss from operations	(1,309)	(7)%	(1,809)	(11)%	(7,934)	(15)%
Other Expense:						
Interest expense, net	(709)	(4)%	(462)	(3)%	(1,932)	(3)%
Other expense, net	(64)	— %	137	1 %	(1,105)	(2)%
Total other expense	(773)	(4)%	(325)	(2)%	(3,037)	(5)%
Loss before provision for income taxes	(2,082)	(11)%	(2,134)	(13)%	(10,971)	(20)%
Provision for income taxes	(308)	(1)%	(190)	(1)%	(569)	(1)%
Net loss	\$(2,390)	(12)%	\$(2,324)	(14)%	\$(11,540)	(21)%
Net loss per common share:						
Loss per common share, basic and diluted	\$(0.14)		\$(0.16)		\$(0.71)	

⁽¹⁾ Includes stock-based compensation detailed under Share-based Compensation in Note 8 of the Notes to Condensed Consolidated Financial Statements.

⁽²⁾ Includes General and administrative stock-based compensation of \$1,028,000 and \$563,000 for the three months ended September 30, 2016 and 2015, respectively and \$2,491,000 and \$1,712,000 for the nine months ended September 30, 2016 and 2015, respectively.

⁽³⁾ Includes depreciation and amortization of \$1,102,000 and \$907,000 for the three months ended September 30, 2016 and 2015, respectively, and \$3,229,000 and \$2,870,000 for the nine months ended September 30, 2016 and 2015, respectively.

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Comparison of the Three and Nine Months Ended September 30, 2016 and 2015

Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Revenue:						
Subscription and support	\$17,029	\$14,129	21 %	\$48,490	\$42,474	14 %
Perpetual license	332	540	(39)%	1,108	2,197	(50)%
Total product revenue	17,361	14,669	18 %	49,598	44,671	11 %
Professional services	1,880	2,436	(23)%	5,795	7,640	(24)%
Total revenue	\$19,241	\$17,105	12 %	\$55,393	\$52,311	6 %

Percentage of revenue:

Subscription and support	89	% 83	%	88	% 81	%
Perpetual license	2	% 3	%	2	% 4	%
Total product revenue	91	% 86	%	90	% 85	%
Professional services	9	% 14	%	10	% 15	%
Total revenue	100	% 100	%	100	% 100	%

For the Three Months Ended September 30, 2016

Total revenue was \$19.2 million in the three months ended September 30, 2016, compared to \$17.1 million in the three months ended September 30, 2015, an increase of \$2.1 million, or 12%. The 2015 and 2016 acquisitions contributed an increase of \$3.5 million after the reduction of \$0.3 million purchase accounting deferred revenue discount. Total revenue declined by \$1.5 million due to the divestiture of the EPM Live product line in Q1 2016. Therefore, total revenue for the organic business increased by \$0.1 million or 1%.

Subscription and support revenue was \$17.0 million in the three months ended September 30, 2016, compared to \$14.1 million in the three months ended September 30, 2015, an increase of \$2.9 million, or 21%. The 2015 and 2016 acquisitions contributed to an increase in subscription and support revenue of \$3.2 million after the reduction of \$0.3 million purchase accounting deferred revenue discount. Subscription and support revenue decreased by \$0.7 million due to the divestiture of the EPM Live product line in Q1 2016 with an immaterial impact from foreign currency exchange rate between the Canada dollar versus the U.S. dollar during the most recent period. Therefore, subscription and support revenue for the organic business increased by \$0.4 million or 3%.

Perpetual license revenue was \$0.3 million in the three months ended September 30, 2016 as compared to \$0.5 million in the three months ended September 30, 2015, a decrease of \$0.2 million, or 39%. Perpetual license revenue declined by \$0.1 million due to the divestiture of the EPM Live product line and the remaining \$0.1 million decline was organic as we continue to focus sales efforts on recurring revenue customer contracts over one-time perpetual license sales.

Professional services revenue was \$1.9 million in the three months ended September 30, 2016, compared to \$2.4 million in the three months ended September 30, 2015, a decrease of \$0.5 million, or 23%. The acquisitions we closed in 2015 and 2016 contributed to a \$0.3 million increase to professional services revenue. The divestiture of the EPM product line in Q1 2016 contributed to a \$0.6 million decrease in professional services revenue. Therefore, professional services revenue for the organic business decreased by \$0.2 million, or 11% from the prior year.

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For the Nine Months Ended September 30, 2016

Total revenue was \$55.4 million in the nine months ended September 30, 2016, compared to \$52.3 million in the nine months ended September 30, 2015, an increase of \$3.1 million, or 6%. The 2015 and 2016 acquisitions contributed an increase in total revenue of \$8.5 million after the reduction of \$1.2 million purchase accounting deferred revenue discount. Total revenue declined by \$4.6 million due to the divestiture of the EPM Live product line at the end of February 2016, and by \$0.7 million from a lower foreign currency exchange rate between the Canada dollar versus the U.S. dollar during the nine months ended September 30, 2016. Therefore, on a constant currency basis, total revenue for the organic business declined by \$0.1 million or 0%.

Subscription and support revenue was \$48.5 million in the nine months ended September 30, 2016, compared to \$42.5 million in the nine months ended September 30, 2015, an increase of \$6.0 million, or 14%. Of the increase in subscription and support revenue, the 2015 and 2016 acquisitions contributed to an increase of \$7.7 million after the reduction of \$1.2 million purchase accounting deferred revenue discount. Subscription and support revenue decreased by \$2.0 million due to the divestiture of the EPM Live product line at the end of February 2016, and decreased by \$0.6 million from a lower foreign currency exchange rate between the Canada dollar versus the U.S. dollar during the nine months ended September 30, 2016. Therefore, on a constant currency basis, subscription and support revenue for the organic business grew by \$0.9 million or 2%.

Perpetual license revenue was \$1.1 million in the nine months ended September 30, 2016 as compared to \$2.2 million in the nine months ended September 30, 2015, a decrease of \$1.1 million, or 50%. Perpetual license revenue declined by \$0.5 million due to the divestiture of the EPM Live product line at the end of February 2016 and the remaining \$0.6 million decline was organic as we continue to focus sales efforts on recurring revenue customer contracts over one-time perpetual license sales.

Professional services revenue was \$5.8 million in the nine months ended September 30, 2016, compared to \$7.6 million in the nine months ended September 30, 2015, a decrease of \$1.8 million, or 24%. The acquisitions we closed in 2015 and 2016 contributed to a \$0.7 million increase to professional services revenue. The divestiture of the EPM product line at the end of February 2016 contributed to a \$2.0 million decrease in professional services revenue. A decrease of \$0.1 million was attributable to a lower foreign currency exchange rate between the Canada dollar versus the U.S. dollar during the nine months ended September 30, 2016. Therefore, professional services revenue for the organic business decreased by \$0.4 million or 7%.

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Cost of Revenue and Gross Profit Percentage

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Cost of revenue:						
Subscription and support (1)	\$5,747	\$4,771	20 %	\$16,607	\$14,344	16 %
Professional services	1,045	1,677	(38)%	3,775	5,317	(29)%
Total cost of revenue	6,792	6,448	5 %	20,382	19,661	4 %
Gross profit	\$12,449	\$10,657	17 %	\$35,011	\$32,650	7 %
Percentage of total revenue:						
Subscription and support (1)	30	% 28	%	30	% 27	%
Professional services	5	% 10	%	7	% 11	%
Total cost of revenue	35	% 38	%	37	% 38	%
Gross profit	65	% 62	%	63	% 62	%

(1) Includes depreciation and amortization expense as follows:

Depreciation	\$472	\$386	\$1,383	\$1,295
Amortization	\$630	\$521	\$1,846	\$1,575

For the Three Months Ended September 30, 2016

Cost of subscription and support revenue was \$5.7 million in the three months ended September 30, 2016, compared to \$4.8 million in the three months ended September 30, 2015, an increase of \$0.9 million, or 20%. The 2015 and 2016 acquisitions contributed a \$0.4 million increase in cost of subscription and support revenue, which consisted primarily of personnel and related costs and amortization of acquired intangible assets. Cost of subscription and support revenue decreased by \$0.5 million due to the divestiture of the EPM Live product line in Q1 2016 which consisted primarily of personnel and related costs. Cost of subscription and support revenue for the organic portion of our business increased \$1.1 million in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 driven by short code leasing and mobile messaging costs to support the increase in customer mobile messaging volume and activity.

Cost of professional services revenue was \$1.0 million in the three months ended September 30, 2016, compared to \$1.7 million in the three months ended September 30, 2015, a decrease of \$0.7 million, or 38%. The 2015 and 2016 acquisitions contributed an increase in cost of professional services revenue of \$0.2 million primarily due to personnel and related costs. Cost of professional services revenue decreased \$0.5 million due to the divestiture of the EPM Live product line in Q1 2016, consisting primarily of personnel and related costs. The cost of the organic portion of our professional services business declined by \$0.3 million and consisted primarily of reduced personnel and related costs.

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For the Nine Months Ended September 30, 2016

Cost of subscription and support revenue was \$16.6 million in the nine months ended September 30, 2016, compared to \$14.3 million in the nine months ended September 30, 2015, an increase of \$2.3 million, or 16%. The 2015 and 2016 acquisitions contributed a \$0.9 million increase in cost of subscription and support revenue, which consisted primarily of amortization of acquired intangible assets. Cost of subscription and support revenue decreased by \$1.2 million due to the divestiture of the EPM Live product line in Q1 2016 which consisted primarily of personnel and related costs. Cost of subscription and support revenue for the organic portion of our business increased by \$2.6 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 primarily due to the increase in short code leasing and mobile messaging costs driven by higher mobile messaging volume and activity.

Cost of professional services revenue was \$3.8 million in the nine months ended September 30, 2016, compared to \$5.3 million in the nine months ended September 30, 2015, a decrease of \$1.5 million, or 29%. The 2015 and 2016 acquisitions contributed an increase in cost of professional services revenue of \$0.4 million primarily due to personnel and related costs. Cost of professional services revenue decreased \$1.2 million due to the divestiture of the EPM Live product line in Q1 2016 consisting primarily of personnel and related costs. The cost of the organic portion of our professional services business declined by \$0.7 million and consisted primarily of personnel and related costs.

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Operating Expenses

Sales and Marketing Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Sales and marketing	\$3,097	\$2,929	6 %	\$9,119	\$9,907	(8)%
Percentage of total revenue	16	% 17	%	16	% 19	%

For the Three Months Ended September 30, 2016

Sales and marketing expense was \$3.1 million in the three months ended September 30, 2016, compared to \$2.9 million in the three months ended September 30, 2015, an increase of \$0.2 million, or 6%. The 2015 and 2016 acquisitions contributed \$0.6 million of increased sales and marketing cost primarily consisting of personnel and related costs while the divestiture of the EPM Live product line in Q1 2016 decreased sales and marketing costs by \$0.5 million primarily consisting of personnel and related costs.

For the Nine Months Ended September 30, 2016

Sales and marketing expense was \$9.1 million in the nine months ended September 30, 2016, compared to \$9.9 million in the nine months ended September 30, 2015, a decrease of \$0.8 million, or 8%. The 2015 and 2016 acquisitions contributed \$1.6 million of increased sales and marketing cost primarily consisting of personnel and related costs while the divestiture of the EPM Live product line in Q1 2016 decreased sales and marketing costs by \$1.2 million primarily consisting of personnel and related costs. Sales and marketing expense for the organic portion of our business decreased \$1.2 million primarily due to a decrease in marketing program costs and personnel costs as we focus on existing customer expansion instead of acquiring new customers.

Research and Development Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Research and development	\$3,737	\$3,852	(3)%	\$11,701	\$11,930	(2)%
Refundable Canadian tax credits	(115)	(115)	— %	(340)	(358)	(5)%
Total research and development	\$3,622	\$3,737	(3)%	\$11,361	\$11,572	(2)%

Percentage of total revenue:

Research and development	19	% 23	%	21	% 23	%
Refundable Canadian tax credits	(1	)%	(1	)%	(1)%
Total research and development	39	% 37	%	38	% 38	%

For the Three Months Ended September 30, 2016

Research and development expense was \$3.7 million in the three months ended September 30, 2016, compared to \$3.9 million in the three months ended September 30, 2015, a decrease of \$0.2 million, or 3%. Research and development expense for our organic business decreased by \$0.1 million due to a decrease in personnel and related costs as we shift to an outsourced R&D model.

Refundable Canadian tax credits were \$0.1 million in the three months ended September 30, 2016, compared to the same amount in the three months ended September 30, 2015.

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For the Nine Months Ended September 30, 2016

Research and development expense was \$11.7 million in the nine months ended September 30, 2016, compared to \$11.9 million in the nine months ended September 30, 2015, a decrease of \$0.2 million, or 2%. The 2015 and 2016 acquisitions contributed a \$0.7 million increase to research and development expense primarily due to personnel and related costs. The divestiture of the EPM Live product line in Q1 2016 decreased research and development expense by \$0.6 million primarily consisting of personnel and related costs. Research and development expense for our organic business decreased by \$0.3 million primarily due to a net decrease in personnel and related costs as we shift to an outsourced R&D model.

General and Administrative Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
General and administrative	\$4,670	\$4,494	4 %	\$13,340	\$14,327	(7)%
Percentage of total revenue	24 %	26 %		24 %	27 %	

For the Three Months Ended September 30, 2016

General and administrative expense was \$4.7 million in the three months ended September 30, 2016, compared to \$4.5 million in the three months ended September 30, 2015, an increase of \$0.2 million, or 4%. An increase in general administrative expense of \$0.1 million was due to the 2015 and 2016 acquisitions which consisted primarily of personnel costs and administrative fees. The divestiture of the EPM Live product line in Q1 2016 decreased general and administrative expense by \$0.1 million primarily consisting of personnel and related costs. General and administrative expense from our organic business increased by \$0.3 million primarily attributable non-cash stock compensation expense.

For the Nine Months Ended September 30, 2016

General and administrative expense was \$13.3 million in the nine months ended September 30, 2016, compared to \$14.3 million in the nine months ended September 30, 2015, a decrease of \$1.0 million, or 7%. An increase in general administrative expense of \$0.3 million was due to the 2015 and 2016 acquisitions which consisted primarily of personnel costs and administrative fees. The divestiture of the EPM Live product line in Q1 2016 decreased general and administrative expense by \$0.2 million primarily consisting of personnel and related costs. General and administrative expense from our organic business decreased by \$0.9 million primarily due to a \$0.6 million decrease in professional and non-recurring litigation expenses and \$0.3 million decrease in personnel and related costs, most of which are the result of our planned operating efficiencies.

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Depreciation and Amortization Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Depreciation and amortization:						
Depreciation	171	116	47 %	\$487	331	47 %
Amortization	1,151	1,014	14 %	3,783	2,876	32 %
Total depreciation and amortization	1,322	1,130	17 %	\$4,270	3,207	33 %

Percentage of total revenue:

Depreciation	1	% 1	%	1	% 1	%
Amortization	6	% 6	%	7	% 5	%
Total depreciation and amortization	7	% 7	%	8	% 6	%

For the Three Months Ended September 30, 2016

Depreciation and amortization expense was \$1.3 million in the three months ended September 30, 2016, compared to \$1.1 million in the three months ended September 30, 2015, an increase of \$0.2 million, or 17%. Amortization and depreciation increased by \$0.3 million primarily from the amortization expense related to the acquired intangible assets of the 2015 and 2016 acquisitions. The divestiture of the EPM Live product line in Q1 2016 decreased amortization expense by \$0.1 million.

For the Nine Months Ended September 30, 2016

Depreciation and amortization expense was \$4.3 million in the nine months ended September 30, 2016, compared to \$3.2 million in the nine months ended September 30, 2015, an increase of \$1.1 million, or 33%. Amortization expense increased by \$1.3 million primarily from amortization expense related to the acquired intangible assets of the 2015 and 2016 acquisitions and decreased by \$0.3 million due to the divestiture of EPM Live in Q1 2016.

Acquisition-related Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Acquisition-related expenses	\$1,047	\$176	495 %	\$4,855	\$1,081	349 %
Percentage of total revenue	7	% 1	%	10	% 3	%

For the Three Months Ended September 30, 2016

Acquisition related expense was \$1.0 million in the three months ended September 30, 2016, compared to \$0.2 million in the three months ended September 30, 2015, an increase of \$0.8 million, or 495%. The increase was due to a greater number of acquisition transactions this year as compared to the year ago period, and includes charges we are taking to consolidate our office locations.

For the Nine Months Ended September 30, 2016

Acquisition related expense was \$4.9 million in the nine months ended September 30, 2016, compared to \$1.1 million in the nine months ended September 30, 2015, an increase of \$3.8 million, or 349%. The increase was due to a greater number of acquisition transactions year-to-date compared to the prior year-to-date period, and includes charges we are taking to consolidate our office locations.

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Other Income (Expense)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Other expense:						
Interest expense, net	(709)	(462)	53 %	(1,932)	(1,385)	39 %
Other expense, net	(64)	137	(147)%	(1,105)	(387)	186 %
Total other expense	(773)	(325)	138 %	(3,037)	(1,772)	71 %

Percentage of total revenue:

Interest expense, net	(4)%	(3)%	(3)%	(3)%
Other expense, net	— %	1 %	(2)%	— %
Total other expense	(4)%	(2)%	(5)%	(3)%

For the Three Months Ended September 30, 2016

Interest expense was \$0.7 million in the three months ended September 30, 2016, compared to \$0.5 million in the three months ended September 30, 2015, an increase in interest expense of \$0.2 million, or 53%. The increase was due to an increase in borrowing this year on our debt facility with Wells Fargo Capital Finance for acquisitions.

Other expense was negative \$0.1 million in the three months ended September 30, 2016, compared to other income of \$0.1 million in the three months ended September 30, 2015, an increase of \$0.2 million due to a \$0.1 million difference in the fair value of a stock earnout issued during three months ended September 30, 2016 versus its carrying value and favorable currency exchange rate between the U.S. dollar versus the Canada dollar a year ago versus the most recent period.

For the Nine Months Ended September 30, 2016

Interest expense was \$1.9 million in the nine months ended September 30, 2016, compared to \$1.4 million in the nine months ended September 30, 2015, an increase in interest expense of \$0.5 million, or 39%. The increase was due to an increase in borrowing this year on our debt facility with Wells Fargo Capital Finance recent acquisitions.

Other expense was \$1.1 million in the nine months ended September 30, 2016, compared to \$0.4 million in the nine months ended September 30, 2015, an increase of \$0.7 million. Other expense of \$0.7 million in the nine months ended September 30, 2016 was primarily due to the non-cash accounting loss on the divestiture of the EPM Live assets as part of the acquisition of Hipcricket in three months ended September 30, 2016.

(Provision for) Benefit from Income Taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(dollars in thousands)			(dollars in thousands)		
Provision for income taxes	(308)	(190)	62 %	(569)	(185)	208 %
Percentage of total revenue	(1)%	(1)%		(1)%	— %	

For the Three Months Ended September 30, 2016

Provision for income taxes was \$0.3 million in the three months ended September 30, 2016, compared to the provision for income taxes of \$0.2 million in the three months ended September 30, 2015, an increase of \$0.1 million, due primarily to an increase in pre-tax net income in our Canadian operations compared to the prior period.

For the Nine Months Ended September 30, 2016

Provision for income taxes was \$0.6 million in the nine months ended September 30, 2016, compared to \$0.2 million in the nine months ended September 30, 2015, an increase of \$0.4 million, due to an increase in pre-tax net income in our Canadian operations compared to the prior period.

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Liquidity and Capital Resources

To date, we have financed our operations primarily through issuance of common stock and cash from operating activities, and to a lesser extent, borrowing under our loan and security agreements and the issuance of seller notes. As of September 30, 2016, we had cash and cash equivalents of \$17.5 million, \$5.0 million of available borrowings under our loan and security agreements, and \$38.3 million of borrowings outstanding under our loan and security agreements compared to cash and cash equivalents of \$18.5 million, \$20.0 million of available borrowings under our loan and security agreements, and \$24.4 million of borrowings outstanding under our loan and security agreements as of December 31, 2015. In addition to the available borrowings noted above, our current credit facility provides for an additional \$10.0 million in subordinated seller notes for acquisitions plus an uncommitted \$15.0 million accordion loan for future acquisitions.

As of September 30, 2016 and December 31, 2015, we had a working capital deficit of \$5.2 million and surplus of \$1.0 million, respectively, which included \$23.1 million and \$19.9 million of deferred revenue recorded as a current liability as of September 30, 2016 and December 31, 2015, respectively. This deferred revenue will be recognized as revenue in accordance with our revenue recognition policy.

The following table summarizes our cash flows for the periods indicated:

Nine Months
Ended September
30,
2016 2015
(dollars in
thousands)

Consolidated Statements of Cash Flow Data:

Net cash provided by operating activities	\$ 1,135	\$ 1,671
Net cash used in investing activities	(13,140)	(3,547)
Net cash provided by (used in) financing activities	10,758	(218)
Effect of exchange rate fluctuations on cash	254	(200)
Change in cash and cash equivalents	(993)	(2,294)
Cash and cash equivalents, beginning of period	18,473	30,988
Cash and cash equivalents, end of period	\$ 17,480	\$ 28,694

Cash Flows from Operating Activities

Cash used in operating activities is significantly influenced by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business. Our operating assets and liabilities consist primarily of cash, receivables from customers and unbilled professional services, accounts payable and accrued expenses and deferred revenues. The volume of professional services rendered and the related timing of collections on those bookings, as well as payments of our accounts payable and accrued payroll and related benefits affect these account balances.

Our cash provided by operating activities for the nine months ended September 30, 2016 primarily reflects our net loss of \$11.5 million plus non-cash expenses that included \$7.5 million of depreciation and amortization, \$2.7 million of non-cash stock compensation expense, \$0.3 million of deferred income taxes, \$0.2 million of non-cash interest and other, and \$0.7 million loss on disposal of business offset by \$0.2 million of foreign currency re-measurement gains. Working capital sources of cash included a \$0.3 million decrease in accounts receivable, a \$0.8 million decrease in prepaids and other and a \$1.4 million increase in deferred revenue. These sources of cash were offset by a \$0.1 million decrease in accounts payable and a \$0.8 million decrease in accrued expenses and other liabilities.

A substantial source of cash is provided as a result of invoicing for subscriptions in advance, which is recorded as deferred revenue, and is included on our consolidated balance sheet as a liability. Deferred revenue consists of the unearned portion of booked fees for our software subscriptions and support, which is amortized into revenue in accordance with our revenue recognition policy. We assess our liquidity, in part, through an analysis of

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new subscriptions invoiced, expected cash receipts on new and existing subscriptions, and our ongoing operating expense requirements.

Cash Flows from Investing Activities

Our primary investing activities have consisted of acquisitions of complementary technologies, products and businesses. As our business grows, we expect our primary investing activities to continue to further expand our family of software applications and infrastructure and support additional personnel.

For the nine months ended September 30, 2016 cash used in investing activities for business combinations, consisted of cash proceeds paid during the period to certain sellers of our website analytics and workflow automation business acquisitions, which were acquired in January and April, 2016, respectively totaling \$11.8 million, purchases of customer relationships of \$0.4 million and purchases of property and equipment of \$0.9 million.

Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support research and development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced applications and professional service offerings and acquisitions of complementary technologies, products and businesses.

Cash Flows from Financing Activities

Our primary financing activities have consisted of capital raised to fund our operations, proceeds from debt obligations entered into to finance our operations, repayments of our debt obligations and share based payment activity.

During the nine months ended September 30, 2016, we received \$0.2 million related to the issuance of our common stock, borrowed \$5.0 million under the revolver portion of our credit agreement in addition to borrowing \$10.0 million under the delayed draw term loan of our credit agreement in conjunction with the acquisition of our website analytics and Advanced Processing & Imaging, Inc. acquisitions, repaid \$1.6 million of term notes payable, paid \$1.5 million in additional consideration to sellers of acquired businesses and made principal payments of \$1.3 million on capital leases.

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2016 and 2015, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special-purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and the Use of Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

The following critical accounting policies reflect significant judgments and estimates used in the preparation of our consolidated financial statements:

- revenue recognition and deferred revenue;

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- stock-based compensation;
- income taxes; and
- business combinations and the recoverability of goodwill and long-lived assets.

Our unaudited interim financial statements and other financial information for the three and nine months ended September 30, 2016, as presented herein and in Item 1 to this Quarterly Report on Form 10-Q, reflects no material changes in our critical accounting policies and estimates as set forth in our Annual report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016. Please refer to this Annual Report for a detailed description of our critical accounting policies that involve significant management judgment.

We evaluate our estimates, judgments and assumptions on an ongoing basis, and while we believe that our estimates, judgments and assumptions are reasonable, they are based upon information available at the time. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. The statement of operations impact is mitigated by having an offsetting liability in deferred revenue to partially or completely offset against the outstanding receivable if an account should become uncollectible. Our cash balances are kept in customary operating accounts, a portion of which are insured by the Federal Deposit Insurance Corporation, and uninsured money market accounts. The majority of our cash balances in money market accounts are with Comerica Bank, our former lender under our loan and security agreements. To date, we have not used derivative instruments to mitigate the impact of our market risk exposures. We also have not used, nor do we intend to use, derivatives for trading or speculative purposes.

Interest Rate Risk

Our exposure to market risk for changes in interest rates primarily relates to our cash equivalents and any variable rate indebtedness. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This objective is accomplished currently by making diversified investments, consisting only of money market mutual funds and certificates of deposit. Any draws under our loan and security agreements bear interest at a variable rate tied to the prime rate. As of September 30, 2016, we had a principal balance of \$27.7 million under our U.S. Term Loan, \$5.0 million under our U.S. Revolver, \$5.6 million under our Canadian Term Loan and none under our Canadian Revolver. As of December 31, 2015, we had a principal balance of \$18.5 million under our U.S. Loan Agreement and \$5.9 million under our Canadian Loan Agreement.

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Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. In addition, we incur a portion of our operating expenses in foreign currencies, including Canadian dollars, British pounds and Euro, and in the future as we expand into other foreign countries, we expect to incur operating expenses in other foreign currencies. In addition, our customers are generally invoiced in the currency of the country in which they are located. We are exposed to foreign exchange rate fluctuations as the financial results of our international operations are translated from the local functional currency into U.S. dollars upon consolidation. A decline in the U.S. dollar relative to foreign functional currencies would increase our non-U.S. revenue and improve our operating results. Conversely, if the U.S. dollar strengthens relative to foreign functional currencies, our revenue and operating results would be adversely affected. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would have resulted in a change in revenue of \$1.6 million for the nine months ended September 30, 2016. To date, we have not engaged in any hedging strategies. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency exchange rates.

Inflation

We do not believe that inflation had a material effect on our business, financial condition or results of operations in the last three fiscal years. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Risks Related to Our Business

Other than with respect to the replacement of the risk factor entitled our loan agreements contain operating and financial covenants that may restrict our business and financing activities set forth in our Annual Report on Form 10-K for the year ended December 31, 2015, with the risk factor set forth below, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Our credit facility contains operating and financial covenants that may restrict our business and financing activities.

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On May 14, 2015, we entered into a \$60 million credit facility with Wells Fargo Capital Finance. The facility is comprised of a \$25 million term loan, a \$10 million revolving credit facility and a \$10 million delayed draw term loan for acquisitions. Additionally, the facility provides for an uncommitted \$15 million accordion loan to further support future acquisitions and an additional \$10 million of subordinated seller notes for acquisitions. As of September 30, 2016, there was \$38.3 million outstanding under the credit facility, \$33.3 million of which was outstanding under the term loan portion and \$5.0 million outstanding under the revolving portion of the credit facility.

Our obligations and the obligations of the co-borrowers and any guarantors under the Wells Fargo credit facility are secured by a security interest in substantially all of our assets and assets of the co-borrowers' and of any guarantors, including intellectual property. The terms of the credit facility limits, among other things, our ability to

sell, lease, license or otherwise dispose of assets;

undergo a change in control;

- consolidate or merge with or into other entities;

make or own loans, investments and acquisitions;

create, incur or assume guarantees in respect of obligations of other persons;

create, incur or assume liens and other encumbrances; or

pay dividends or make distributions on, or purchase or redeem, our capital stock.

Furthermore, the Wells Fargo credit facility requires us and our subsidiaries to comply with certain financial covenants. The operating and other restrictions and covenants in the credit facility, and in any future financing arrangements that we may enter into, may restrict our ability to finance our operations, engage in certain business activities, or expand or fully pursue our business strategies, or otherwise limit our discretion to manage our business.

Our ability to comply with these restrictions and covenants may be affected by events beyond our control, and we may not be able to meet those restrictions and covenants. A breach of any of the restrictions and covenants could result in a default under the credit facility or any future financing arrangements, which could cause any outstanding indebtedness under the credit facility or under any future financing arrangements to become immediately due and payable, and result in the termination of commitments to extend further credit.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UPLAND SOFTWARE, INC.

Dated: November 14, 2016 /s/ Michael D. Hill

Michael D. Hill
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	File No.	Exhibit Filing Date
3.1	Amended and Restated Certificate of Incorporation, as currently in effect	S-1	333-198574	3.2 October 27, 2014
3.2	Amended and Restated Bylaws, as currently in effect	S-1	333-198574	3.4 October 27, 2014
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS***	XBRL Instance Document			
101.SCH***	XBRL Taxonomy Extension Schema Document			
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document			

* Filed herewith.

**Furnished herewith.

The financial information contained in these XBRL documents is unaudited and these are not the official publicly filed financial statements of Upland Software, Inc. Investors should continue to rely on the official filed version of the furnished documents and not rely on this information in making investment decisions. In accordance with Rule ***402 of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

