Upland Software, Inc.
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-36720

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

State of Delaware	27-2992077
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 Congress Avenue, Suite 1850 Austin, Texas	78701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (512) 960-1010

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. x

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

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 August 2, 2018
Common Stock, $0.0001 par value	21,557,857

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Item 1. Financial Statements
Upland Software, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except for share and per share information)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 19,037	$ 22,326
Accounts receivable (net of allowance of $1,183 and $1,069 at June 30, 2018 and December 31, 2017, respectively)	26,831	26,504
Deferred commissions, current	2,185	—
Prepaid and other	3,369	2,856
Total current assets	51,422	51,686
Canadian tax credits receivable	1,478	1,196
Property and equipment, net	2,641	2,927
Intangible assets, net	114,777	70,043
Goodwill	157,389	154,607
Deferred commissions, noncurrent	5,023	—
Other assets	167	800
Total assets	$ 332,897	$ 281,259
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,339	$ 3,887
Accrued compensation	4,085	5,157
Accrued expenses and other	12,709	12,148
Deferred revenue	44,388	43,807
Due to sellers	10,362	7,839
Current maturities of notes payable (includes unamortized discount of $835 and $699 at June 30, 2018 and December 31, 2017, respectively)	3,290	2,301
Total current liabilities	79,173	75,139
Notes payable, less current maturities (includes unamortized discount of $2,055 and $1,969 at June 30, 2018 and December 31, 2017, respectively)	155,757	108,843
Deferred revenue	894	1,570
Noncurrent deferred tax liability, net	6,358	3,262
Other long-term liabilities	961	1,030
Total liabilities	243,143	189,844
Stockholders' equity:		
Common stock, $0.0001 par value; 50,000,000 shares authorized: 21,516,738 and 20,768,401 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively)	2	2
Additional paid-in capital	178,062	174,944
Accumulated other comprehensive loss	(5,083)	(2,403)
Accumulated deficit	(83,227)	(81,128)
Total stockholders' equity	89,754	91,415
Total liabilities and stockholders' equity	$ 332,897	$ 281,259

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
(unaudited)
(in thousands, except for share and per share information)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Subscription and support	$33,154	$ 19,407	$60,883	$37,542
Perpetual license	683	1,746	2,309	2,440
Total product revenue	33,837	21,153	63,192	39,982
Professional services	2,109	2,128	4,369	4,051
Total revenue	35,946	23,281	67,561	44,033
Cost of revenue:				
Subscription and support	9,580	6,676	18,829	12,569
Professional services	1,269	1,327	2,665	2,462
Total cost of revenue	10,849	8,003	21,494	15,031
Gross profit	25,097	15,278	46,067	29,002
Operating expenses:				
Sales and marketing	5,248	4,037	9,656	7,258
Research and development	5,286	4,003	10,177	7,480
Refundable Canadian tax credits	(203)	(112)	(305)	(229)
General and administrative	8,464	6,576	15,464	12,480
Depreciation and amortization	3,853	1,299	5,983	2,463
Acquisition-related expenses	3,140	2,278	6,242	5,969
Total operating expenses	25,788	18,081	47,217	35,421
Loss from operations	(691)	(2,803)	(1,150)	(6,419)
Other expense:				
Interest expense, net	(3,143)	(1,160)	(5,637)	(2,095)
Loss on debt extinguishment	—	(1,634)	—	(1,634)
Other income (expense), net	(524)	(18)	(221)	(130)
Total other expense	(3,667)	(2,812)	(5,858)	(3,859)
Loss before provision for income taxes	(4,358)	(5,615)	(7,008)	(10,278)
Provision for income taxes	(872)	(196)	(1,383)	(1,147)
Net loss	$(5,230)	$ (5,811)	$(8,391)	$(11,425)
Net loss per common share:				
Net loss per common share, basic and diluted	$(0.26)	$ (0.33)	$(0.42)	$(0.66)
Weighted-average common shares outstanding, basic and diluted	19,901,599	17,778,184	19,830,401	17,374,789

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
(unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(5,230)	$(5,811)	$(8,391)	$(11,425)
Foreign currency translation adjustment	(2,227)	255	(2,680)	333
Comprehensive loss	$(7,457)	$(5,556)	$(11,071)	$(11,092)

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
(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2018	2017
Operating activities		
Net loss	$(8,391)	$(11,425)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,217	5,046
Deferred income taxes	275	392
Amortization of deferred commissions	1,115	—
Foreign currency re-measurement (gain) loss	269	(182)
Non-cash interest and other expense	404	120
Non-cash stock compensation expense	6,599	5,920
Non-cash loss on retirement of fixed assets	—	(18)
Non-cash loss on debt extinguishment	—	1,634
Changes in operating assets and liabilities, net of purchase business combinations:		
Accounts receivable	2,963	4,038
Prepaids and other	(2,545)	846
Accounts payable	(476)	857
Accrued expenses and other liabilities	(3,898)	(462)
Deferred revenue	(1,792)	(1,024)
Net cash provided by operating activities	3,740	5,742
Investing activities		
Purchase of property and equipment	(515)	(375)
Purchase business combinations, net of cash acquired	(45,362)	(37,096)
Net cash used in investing activities	(45,877)	(37,471)
Financing activities		
Payments on capital leases	(505)	(745)
Proceeds from notes payable, net of issuance costs	49,375	33,308
Payments on notes payable	(1,876)	(10,725)
Taxes paid related to net share settlement of equity awards	(3,862)	(372)
Issuance of common stock, net of issuance costs	382	43,073
Additional consideration paid to sellers of businesses	(4,294)	(4,338)
Net cash provided by financing activities	39,220	60,201
Effect of exchange rate fluctuations on cash	(372)	190
Change in cash and cash equivalents	(3,289)	28,662
Cash and cash equivalents, beginning of period	22,326	28,758
Cash and cash equivalents, end of period	$19,037	$57,420
Supplemental disclosures of cash flow information:		
Cash paid for interest	$5,260	$1,984
Cash paid for taxes	$1,856	$1,172
Noncash investing and financing activities:		
Equipment acquired pursuant to capital lease obligations	$—	$165

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 ("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 of a normal recurring nature necessary for a fair presentation. The results of operations for the three months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 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 2017 Annual Report on Form 10-K filed with the SEC on March 9, 2018.

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 months ended June 30, 2018 or for the year ended December 31, 2017, or more than 10% of accounts receivable as of June 30, 2018 or December 31, 2017.

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

Recently issued accounting pronouncements not yet adopted

In January 2018, the FASB issued ASU 2018-02 related to reporting comprehensive income, which gives entities the option to reclassify to retained earnings the tax effects resulting from the Tax Act related to items in Additional Other Comprehensive Income (AOCI) that the FASB refers to as having been "stranded" in AOCI. The guidance is effective for annual and interim periods beginning after December 15, 2018, and is applicable to the Company in fiscal year 2019; however, early adoption is permitted. The Company is currently evaluating the effect that the adoption of ASU 2018-02 will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard supersedes the present U.S. GAAP standard on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease obligations. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual reporting periods. Early adoption is permitted and in the original guidance the modified retrospective application was required, however, in July 2018 the FASB issued ASU 2018-11 which permits entities with another transition method in which the effective date would be the date of initial application of transition. Under this optional transition method, we would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We expect to elect the optional transition method. We plan to adopt the new standard on its effective date of January 1, 2019. We anticipate adoption of the standard will not significantly impact results. We plan to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard. We will not reassess whether any contracts entered into prior to adoption are leases. We are in the process of cataloging our existing lease contracts and implementing changes to our systems.

In June 2016, the FASB issued ASU 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.

Recently adopted accounting pronouncements

In June 2018, the FASB issued ASU 2018-07 which simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. For public business entities, the guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods, however, early adoption is permitted. Although nonemployee directors do not satisfy the definition of employee, under FASB guidance, the Company's nonemployee directors acting in their role as members of a board of directors are treated as employees as those directors were elected by the Company's shareholders. Therefore, awards granted to these nonemployee directors for their services as directors already were accounted for as employee awards. The Company adopted ASU 2018-07 during the second quarter of 2018. We adopted ASU 2018-07 during the second quarter of 2018 with no impact on our financial statements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Updated (“ASU”) 2014-09, “Revenue from Contracts with Customers”, to replace existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. Under this ASU and the associated subsequent amendments (collectively, “ASC 606”), revenue is recognized when a customer obtains control of promised goods or services for an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, ASC 606 requires expanded disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted ASC 606 on January 1, 2018 for all contracts using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis.

A majority of our sales revenue continues to be recognized ratably over the applicable term of the respective subscription or maintenance contracts. For most sales commissions formerly expensed as incurred, other than for perpetual license commissions which will continue to be expensed as incurred, we are now amortizing these costs to the consolidated statements of income over the shorter of 1) the expected life of our customer relationships, which we have determined to be approximately 6 years, or 2) the life of the related technology.

For further discussion about changes to Significant Accounting Policies impacted by the adoption of 2014-09 (Topic 606), see Note 10. Revenue.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606 were as follows (in thousands):

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Balance Sheet	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
Assets			
Deferred commissions, current	$—	$ 2,070	$2,070
Deferred commissions, noncurrent	—	4,447	4,447
Liabilities			
Deferred revenue (current)	43,807	225	44,032
Equity			
Accumulated deficit	$(81,128)	$ 6,292	$(74,836)

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet for the periods ended June 30, 2018 was as follows (in thousands):

Income statement	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/ (Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/ (Lower)
Revenues						
Perpetual license	683	752	(69)	2,309	2,059	250
Operating expenses						
Sales & marketing	5,248	5,610	(362)	9,656	10,239	(583)

During the three months ended June 30, 2018 and the six months ended June 30, 2018, the effect on earnings per share of the adoption of ASC 606 was an increase in earnings per share of $0.01 and $0.04, respectively.

Balance Sheet	As of June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/ (Lower)
Assets			
Deferred commissions, current	$2,185	$(239)	$2,424
Deferred commissions, noncurrent	5,023	347	4,676
Liabilities			
Deferred revenue (current)	44,388	44,140	(248)
Equity			
Accumulated deficit	$(83,227)	$(88,686)	$(5,459)

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which revises the definition of a business and assists in the evaluation of when a set of transferred assets and activities is a business. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017, and should be applied prospectively. Early adoption is permitted under certain circumstances. The Company adopted ASU 2017-01 during the first quarter of 2018. No impact on the financial statements was recorded as a result of the adoption of ASU 2017-01.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019; early adoption is permitted. The Company adopted ASU 2017-04 during the first quarter of 2018. No impact on the financial statements was recorded as a result of the adoption of ASU 2017-04.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. 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 adopted ASU 2016-15 during the first quarter of 2017. No additional disclosure was deemed necessary upon the adoption of ASU 2016-15. No impact on the financial statements was recorded as a result of the adoption of ASU 2016-15.

2. Acquisitions

2018 Acquisitions

On March 21, 2018, the Company’s wholly owned subsidiary, PowerSteering Software Limited, a limited liability company organized and existing under the laws of England and Wales (“PowerSteering UK”), completed its purchase of the shares comprising the entire issued share capital of Interfax Communications Limited ("Interfax"), an Irish-based software company providing secured cloud-based messaging solutions, including enterprise cloud fax and secure document distribution. In connection with this acquisition, the Company also acquired certain assets related to Interfax’s business from a United States based reseller of Interfax’s products. The purchase price consideration paid for Interfax was $35.0 million in cash at closing, net of cash acquired, and a $5.0 million cash holdback payable over 18 months (subject to reduction for indemnification claims). In conjunction with the acquisition of Interfax, certain assets and customer relationships of their U.S. reseller ("Marketech") were purchased for $2.0 million, and excludes any potential earnout payments tied to performance-based goals. Revenues recorded since the acquisition date through June 30, 2018 were approximately $4.0 million.

On June 28, 2018, the Company completed its purchase of RO Innovation, Inc. ("RO Innovation"), a cloud-based customer reference solution for creating, deploying, managing, and measuring customer reference and sales enablement content. The purchase price consideration paid was approximately $12.5 million in cash payable at closing and a $1.8 million cash holdback payable in one year (subject to reduction for indemnification claims) and excludes potential future earn-out payments tied to additional performance-based goals. No revenues have been recorded since the acquisition of RO Innovation through June 30, 2018.

2017 Acquisitions

On January 10, 2017, the Company completed its purchase of Omtool, Ltd ("Omtool"), a document capture, fax and workflow solution company. The purchase price consideration paid was approximately $19.3 million in cash payable at closing (net of $3.0 million of cash acquired).

On April 21, 2017, the Company acquired RightAnswers, Inc. ("RightAnswers"), a cloud-based knowledge management system. The purchase price was $17.4 million, in cash at closing (net of $0.1 million cash acquired) and a $2.5 million cash holdback payable in one year (subject to reduction for indemnification claims) and excludes potential future earn-out payments tied to additional performance-based goals.

On July 12, 2017, the Company acquired Waterfall International Inc. (“Waterfall”), a cloud-based mobile messaging platform. The purchase price consideration paid was approximately $24.4 million in cash at closing (net of $0.4 million of cash acquired) and a $1.5 million cash holdback payable in 18 months (subject to reduction for indemnification claims). The foregoing excludes additional potential $3.0 million in earnout payments tied to performance-based conditions.

On November 16, 2017, the Company completed its acquisition of Qvidian Corporation, a Delaware corporation (“Qvidian”), a Massachusetts-based provider of cloud-based RFP and sales-proposal automation software. The purchase price consideration paid by the Company was $50 million in cash.

The pro forma statements of operations data for three and six months ended June 30, 2018 and June 30, 2017 shown in table below, give effect to the Qvidian acquisition, described above, as if it had occurred at January 1, 2016. These amounts have been calculated after applying our accounting policies and adjusting the results of Qvidian to reflect: the costs of debt financing incurred to acquire Qvidian, the additional intangible amortization and the adjustments to acquired deferred revenue that would have been occurred assuming the fair value adjustments had been applied and incurred since January 1, 2016. This pro forma data is presented for informational purposes only and does not purport to be indicative of our future results of operations. The table below shows the Pro forma statements of operations data for the three and six months ended June 30, 2018 and June 30, 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$35,946	$28,127	$67,561	$53,262
Loss from continuing operations [(1)]	$(5,230)	$(3,512)	$(8,391)	$(8,023)

(1) While some recurring adjustments impact the pro forma figures presented, the decrease in pro forma loss from continuing operations compared to our loss from continuing operations presented on the consolidated statements of operations for the three and six months ended June 30, 2018 and June 30, 2017 includes nonrecurring adjustments removing acquisition costs from 2017 and reflects these costs in the year ended 2016, the year the acquisition was assumed to be completed for pro forma purposes.

The following condensed table presents the preliminary and finalized acquisition-date fair value of the assets acquired and liabilities assumed for the acquisitions in 2017 and through the six months ended June 30, 2018, as well as assets and liabilities (in thousands):

	Preliminary			Finalized		
	RO Innovation	Interfax	Qvidian	Waterfall	RightAnswers	Omtool
Year Acquired	2018	2018	2017	2017	2017	2017
Cash	$1,427	$2,675	$468	$100	$ 139	$2,957
Accounts receivable	1,807	1,713	1,907	1,477	2,164	784
Other current assets	22	—	334	608	246	464
Property and equipment	51	286	108	23	408	58
Customer relationships	8,596	21,093	30,160	6,400	10,500	4,400
Trade name	65	638	227	110	180	170
Technology	1,636	4,360	5,739	2,800	2,300	3,180
Goodwill	3,170	16,141	21,225	18,575	15,680	14,081
Other assets	—	14	8	—	—	33
Total assets acquired	16,774	46,920	60,176	30,093	31,617	26,127
Accounts payable	(232)	(737)	(388)	(605)	(139)	(219)
Accrued expense and other	(679)	(3,122)	(399)	(1,136)	(2,108)	(915)
Deferred tax liabilities	—	(3,061)	—	—	—	—
Deferred revenue	(1,613)	—	(9,389)	(1,220)	(5,479)	(2,779)
Total liabilities assumed	(2,524)	(6,920)	(10,176)	(2,961)	(7,726)	(3,913)
Total consideration	$14,250	$40,000	$50,000	$27,132	$ 23,891	$22,214

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.

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 2017 acquisitions of Omtool, RightAnswers, and Waterfall are final, and Qvidian, Interfax, and RO Innovation 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 complete its purchase price allocations for Qvidian in the second half of 2018 and Interfax, and RO Innovation in the first half of 2019.

Changes in the preliminary acquisition-date fair value of assets and liabilities for Qvidian during the three months ended June 30, 2018 included a $0.1 million reduction in accrued expense and other and a $0.1 million reduction in deferred revenue. Changes in the preliminary acquisition-date fair value of assets and liabilities for Interfax during the three months ended June 30, 2018 included a $4.2 million reduction in intangibles (customer relationships, trade name and technology) due to a change in estimates during the three months ended June 30, 2018, a $3.1 million increase to deferred tax liabilities as a result of book-tax difference from amortization of intangibles, a $0.1 million decrease in other current assets and $0.1 million increase

in accounts payable and accrued expenses and other.
The goodwill of $88.9 million for the above acquisitions is primarily attributable to the synergies expected to arise after the acquisition. Goodwill deductible for tax purposes is $3.7 million for Waterfall, $2.3 million (at the time of the acquisition) for Interfax, and $2.7 million for RO Innovation. There was no Goodwill deductible for tax purposes for our Omtool, RightAnswers, and Qvidian acquisitions. Measurement period expenses recorded to other income (expense), net, related to acquisitions that took place within a prior period for the three months ended June 30, 2018 and the three months ended June 30, 2017 were net expense of $0.1 million and none, respectively, and for the six months ended June 30, 2018 and the six months ended June 30, 2017, were net income of $0.2 million and none, respectively.
Total one-time transaction costs, excluding one-time restructuring costs, incurred with respect to acquisition activity in the three months ended June 30, 2018 and the three months ended June 30, 2017 were $1.2 million and $1.0 million and for the six months ended June 30, 2018 and the six months ended June 30, 2017 were $2.6 million in both periods.
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, which therefore requires 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, 2017			
	Level 1	Level 2	Level 3	Total
Earnout consideration liability	$—	$—	$3,576	$3,576

	Fair Value Measurements at June 30, 2018 (unaudited)			
	Level 1	Level 2	Level 3	Total
Earnout consideration liability	$—	$—	$2,037	$2,037

As of June 30, 2018, the Level 3 earnout consideration liability consists of amounts associated with the acquisitions of RightAnswers in April 2017, Waterfall in July 2017, Marketech in March 2018, and RO Innovation in June 2018. The Level 3 earnout consideration liability associated with RightAnswers of $2.0 million was settled in February 2018. In addition, the increase in cash earnouts from December 31, 2017 to June 30, 2018 is related to current year acquisitions.
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 (in thousands):

Ending balance at December 31, 2017	$3,576
Additions - cash earnouts	439
Settlements - cash earnouts	(1,978)
Ending balance at June 30, 2018	$2,037

The fair value of the cash earnout consideration was determined using the Binary Option model based on the present value of the probability-weighted earnout consideration.
Debt
The Company believes the carrying value of its long-term debt at June 30, 2018 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 and carrying value of the Company's debt at June 30, 2018 and December 31, 2017 are $161.9 million and $113.8 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 six months ended June 30, 2018 are summarized in the table below (in thousands):

Balance at December 31, 2017	$154,607
Acquired in business combinations	11,799
Adjustment related to prior year business combinations	(15,026)
Adjustment related to finalization of current year business combinations	6,661
Foreign currency translation adjustment	(652)
Balance at June 30, 2018	$157,389

Net intangible assets 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 $15.0 million adjustment to Goodwill during the six months ended June 30, 2018 primarily related to changes in the ASC 805 valuation of customer relationships in the prior year business combination of Qvidian.

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
June 30, 2018:				
Customer relationships	1-10	$ 115,236	$ 23,323	$ 91,913
Trade name	1.5-7	3,996	3,112	884
Developed technology	4-7	35,056	13,076	21,980
Total intangible assets		$ 154,288	$ 39,511	$ 114,777

	Estimated Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2017:				
Customer relationships	5-10	$ 69,061	$ 18,040	$ 51,021
Trade name	1.5	3,431	2,900	531
Developed technology	4-7	29,308	10,817	18,491
Total intangible assets		$ 101,800	$ 31,757	$ 70,043

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

	June 30, 2018	December 31, 2017
Customer relationships	9.3	9.0
Trade name	1.7	1.5
Developed technology	6.6	6.4
Total weighted-average amortization period	8.5	8.2

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 six months ended June 30, 2018 and June 30, 2017, respectively. Total amortization expense during the three months ended June 30, 2018 and June 30, 2017 was $4.5 million and $2.0 million, respectively, and for the six months ended June 30, 2018 and June 30, 2017 was $8.1 million and $3.8 million, 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 2018	$ 9,415
2019	17,855
2020	15,896
2021	15,195
2022	13,070
2023 and thereafter	43,346
Total	$ 114,777

5. Income Taxes

The Company’s income tax provision for the three and six months ended June 30, 2018 and June 30, 2017 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 re-evaluated each quarter based on the estimated tax expense for the full year. The tax provision for the three and six months ended June 30, 2018 and June 30, 2017 is primarily related to foreign income taxes associated with our Canadian, Irish, and Israeli 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 or have net operating loss carryforwards. 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 June 30, 2018 and June 30, 2017, respectively.

The Company has reflected any uncertain tax positions primarily within its long-term taxes payable and a portion within 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