

Upland Software, Inc.
Form 10-Q
May 03, 2019
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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 March 31, 2019

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	UPLD	The Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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, 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 Non-accelerated filer Smaller reporting company Emerging growth company

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

Emerging growth company

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

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

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

As of April 26, 2019, 21,485,449 shares of the registrant's Common Stock were outstanding.

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Item 1. Financial Statements

Upland Software, Inc.

Condensed Consolidated Balance Sheets

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

	March 31, 2019 (unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,022	\$ 16,738
Accounts receivable (net of allowance of \$1,354 and \$1,405 at March 31, 2019 and December 31, 2018, respectively)	34,989	40,841
Deferred commissions, current	2,961	2,633
Unbilled receivables	3,373	3,694
Prepaid and other	4,094	3,382
Total current assets	59,439	67,288
Canadian tax credits receivable	1,714	1,573
Property and equipment, net	2,495	2,827
Operating lease right-of-use asset	4,644	—
Intangible assets, net	170,880	179,572
Goodwill	229,319	225,322
Deferred commissions, noncurrent	7,148	6,292
Other assets	291	324
Total assets	\$ 475,930	\$ 483,198
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,278	\$ 3,494
Accrued compensation	3,152	6,581
Accrued expenses and other current liabilities	16,279	16,666
Deferred revenue	57,018	57,626
Due to sellers	16,793	17,267
Operating lease liabilities, current	2,505	—
Current maturities of notes payable (includes unamortized discount of \$1,113 and \$1,109 at March 31, 2019 and December 31, 2018, respectively)	6,012	6,015
Total current liabilities	105,037	107,649
Notes payable, less current maturities (includes unamortized discount of \$2,214 and \$2,381 at March 31, 2019 and December 31, 2018, respectively)	272,098	273,713
Deferred revenue, noncurrent	329	578
Operating lease liabilities, noncurrent	2,592	—
Noncurrent deferred tax liability, net	10,157	13,311
Other long-term liabilities	652	640
Total liabilities	390,865	395,891
Stockholders' equity:		
Common stock, \$0.0001 par value; 50,000,000 shares authorized: 21,443,226 and 21,489,112 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively)	2	2
Additional paid-in capital	183,700	180,481
Accumulated other comprehensive loss	(5,132	) (7,501)
Accumulated deficit	(93,505) (85,675)
Total stockholders' equity	85,065	87,307

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Total liabilities and stockholders' equity \$475,930 \$483,198

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 March 31,	
	2019	2018
Revenue:		
Subscription and support	\$44,983	\$ 27,729
Perpetual license	657	1,626
Total product revenue	45,640	29,355
Professional services	2,853	2,260
Total revenue	48,493	31,615
Cost of revenue:		
Subscription and support	13,274	9,249
Professional services	1,514	1,396
Total cost of revenue	14,788	10,645
Gross profit	33,705	20,970
Operating expenses:		
Sales and marketing	6,982	4,408
Research and development	6,398	4,891
Refundable Canadian tax credits	(86)	(102)
General and administrative	9,994	7,000
Depreciation and amortization	5,259	2,130
Acquisition-related expenses	7,723	3,102
Total operating expenses	36,270	21,429
Loss from operations	(2,565)	(459)
Other expense:		
Interest expense, net	(5,116)	(2,494)
Other income (expense), net	(761)	303
Total other expense	(5,877)	(2,191)
Loss before provision for income taxes	(8,442)	(2,650)
Benefit from (provision for) income taxes	612	(511)
Net loss	\$(7,830)	\$(3,161)
Net loss per common share:		
Net loss per common share, basic and diluted	\$(0.38)	\$(0.16)
Weighted-average common shares outstanding, basic and diluted	20,442,626	19,759,203

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 March 31,	
	2019	2018
Net loss	\$(7,830)	\$(3,161)
Foreign currency translation adjustment	2,369	(453)
Comprehensive loss	\$(5,461)	\$(3,614)

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

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Upland Software, Inc.
Consolidated Statement of Stockholders' Equity
(unaudited)
(in thousands, except share amounts)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In Capital	Other Comprehensive Loss	Deficit	Stockholders' Equity
Balance at December 31, 2018	21,489,112	\$ 2	\$ 180,481	\$ (7,501)	\$ (85,675)	\$ 87,307
Issuance of common stock in business combination	3,651	—	(30)	—	—	(30)
Issuance of stock under Company plans, net of shares withheld for tax	(49,537)	—	(1,379)	—	—	(1,379)
Stock-based compensation	—	—	4,628	—	—	4,628
Foreign currency translation adjustment	—	—	—	2,369	—	2,369
Net loss	—	—	—	—	(7,830)	(7,830)
Balance at March 31, 2019	21,443,226	\$ 2	\$ 183,700	\$ (5,132)	\$ (93,505)	\$ 85,065
	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In Capital	Other Comprehensive Loss	Deficit	Stockholders' Equity
Balance at December 31, 2017	20,768,401	\$ 2	\$ 174,944	\$ (2,403)	\$ (81,128)	\$ 91,415
Issuance of stock under Company plans, net of shares withheld for tax	758,025	—	(561)	—	—	(561)
Issuance of stock, net of issuance costs	—	—	(21)	—	—	(21)
Stock-based compensation	—	—	2,577	—	—	2,577
Cumulative ASC 606 adjustments	—	—	—	—	6,292	6,292
Foreign currency translation adjustment	—	—	—	(453)	—	(453)
Net loss	—	—	—	—	(3,161)	(3,161)
Balance at March 31, 2018	21,526,426	\$ 2	\$ 176,939	\$ (2,856)	\$ (77,997)	\$ 96,088

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)

	Three Months Ended March 31,	
	2019	2018
Operating activities		
Net loss	\$(7,830)	\$(3,161)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,387	4,172
Deferred income taxes	(2,811)	) 132
Amortization of deferred commissions	801	539
Foreign currency re-measurement (gain) loss	(171)	) 142
Non-cash interest and other expense	283	190
Non-cash stock compensation expense	4,628	2,577
Changes in operating assets and liabilities, net of purchase business combinations:		
Accounts receivable	5,980	555
Prepays and other	(1,268)	) (1,811)
Accounts payable	(269)	) (1,124)
Accrued expenses and other liabilities	(766)	) (3,569)
Deferred revenue	(1,087)	) 883
Net cash provided by (used in) operating activities	4,877	(475)
Investing activities		
Purchase of property and equipment	(173)	) (426)
Purchase business combinations, net of cash acquired	(2,999)	) (34,320)
Net cash used in investing activities	(3,172)	) (34,746)
Financing activities		
Payments on capital leases	(233)	) (298)
Proceeds from notes payable, net of issuance costs	(120)	) 49,375
Payments on notes payable	(1,781)	) (844)
Taxes paid related to net share settlement of equity awards	(1,504)	) (668)
Issuance of common stock, net of issuance costs	96	87
Additional consideration paid to sellers of businesses	(1,258)	) (1,978)
Net cash provided by (used in) financing activities	(4,800)	) 45,674
Effect of exchange rate fluctuations on cash	379	(274)
Change in cash and cash equivalents	(2,716)	) 10,179
Cash and cash equivalents, beginning of period	16,738	22,326
Cash and cash equivalents, end of period	\$14,022	\$32,505
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$4,854	\$2,316
Cash paid for taxes	\$758	\$1,044
Noncash investing and financing activities:		
Business combination consideration including holdbacks and earnouts	\$—	\$5,300
Equipment acquired pursuant to capital lease obligations	\$44	\$—

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)

2. 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 March 31, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019 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 2018 Annual Report on Form 10-K filed with the SEC on March 15, 2019.

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 March 31, 2019 or for the year ended December 31, 2018, or more than 10% of accounts receivable as of March 31, 2019 or December 31, 2018.

Fair Value of Financial Instruments

The Company accounts for financial instruments in accordance with the authoritative guidance on fair value measurements and disclosures for financial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The guidance also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

These tiers include Level 1, defined as observable inputs, such as quoted 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.

The Company's financial instruments consist principally of cash and cash equivalents, accounts receivable, 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 August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, to eliminate, add and modify certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for annual and interim periods beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is currently evaluating how to apply the new guidance.

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 January 2018, the FASB issued ASU 2018-02 Income Statement - Reporting Comprehensive Income (ASC 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI), 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 adopted ASU 2018-02 as of January 1, 2019 and elected not to reclassify the income tax effect of the Tax Act from AOCI to retained earnings. The adoption of ASU 2018-02 resulted in no impact to the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). 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 adopted ASU 2016-02 as of January 1, 2019 using the modified retrospective approach and the optional transition method. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward historical lease classifications.

Adoption of the new standard resulted in the recording operating lease right-of-use assets and operating lease liabilities on our consolidated balance sheets, but did not have an impact on the Company's beginning retained earnings, consolidated statement of operations or statement of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged. As of March 31, 2019, total right-of-use assets related to our operating leases was \$4.6 million and current and non-current operating lease liabilities were approximately \$2.5 million and \$2.6 million, respectively.

2. Acquisitions

We perform quantitative and qualitative analyses to determine the significance of each acquisition to the financial statements the Company. Based on these analyses the below acquisitions were deemed to be insignificant on an individual and cumulative basis, with the exception of Rapide Communication LTD, a private company limited by shares organized and existing under the laws of England and Wales doing business as Rant & Rave ("Rant & Rave").

Refer to “Pro Forma Financials” disclosed below.

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2018 Acquisitions

Acquisitions completed in 2018 included the following:

Interfax - 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.

RO Innovation - On June 27, 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.

Rant & Rave - On October 3, 2018, the Company's wholly owned subsidiary, PowerSteering UK, completed its purchase of the shares comprising the entire issued voting share capital of Rant & Rave, a leading provider of cloud-based customer engagement solutions.

Adestra - On December 12, 2018, the Company completed its purchase of Adestra Ltd. ("Adestra"), a leading provider of enterprise-grade email marketing, transaction and automation software.

See Note 13. Subsequent Events in the notes to our unaudited condensed consolidated financial statements for more information regarding an additional acquisition completed subsequent to March 31, 2019.

Consideration

The following table summarizes the consideration transferred for the acquisitions described above (in thousands):

	Adestra	Rant & Rave	RO Innovation	Interfax
Cash	\$55,242	\$58,470	\$ 12,469	\$35,000
Holdback ⁽¹⁾	4,432	6,500	1,781	5,000
Contingent consideration ⁽²⁾	—	—	—	—
Working capital adjustment	—	(211)	(87)	—
Total consideration	\$59,674	\$64,759	\$ 14,163	\$40,000

⁽¹⁾ Represents cash holdbacks subject to indemnifications claims that are payable 12 months from closing for Adestra, Rant & Rave and RO Innovation and 18 months from closing for Interfax.

⁽²⁾ Contingent consideration includes potential future earn-out payments related to the acquisition of RO Innovation for up to \$7.5 million which was valued at \$0.0 million as of the acquisition date based on the probability of attainment of future performance-based goals. Refer to Note 3 for further discussion regarding fair value of acquisition related earn-outs.

Unaudited Pro Forma Information

The pro forma statements of operations data for the three months ended March 31, 2019 and three months ended March 31, 2018, shown in the table below, give effect to the Rant & Rave acquisition, described above, as if it had occurred at January 1, 2017. These amounts have been calculated after applying our accounting policies and adjusting the results of Rant & Rave to reflect: the reversal and deferral of commissions expense, the costs of debt financing incurred to acquire Rant & Rave, the additional intangible amortization and the adjustments to acquired deferred revenue that would have been recognized assuming the fair value adjustments had been applied and incurred since January 1, 2017. 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 months ended March 31, 2019 and three months ended March 31, 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Revenue	\$48,493	\$37,490
Net loss ⁽¹⁾	\$(7,830)	\$(3,178)

⁽¹⁾ While some recurring adjustments impact the pro forma figures presented, the decrease in pro forma net loss compared to our net loss presented on the consolidated statements of operations for the three months ended March 31,

2019 and March 31,

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2018 includes nonrecurring adjustments removing acquisition costs from 2018 and reflects these costs in the year ended 2017, the year the acquisition was assumed to be completed for pro forma purposes.

Fair Value of Assets Acquired and Liabilities Assumed

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 2018 acquisitions of Rant & Rave and Adestra 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 Rant & Rave and Adestra in the second quarter of 2019.

The following condensed table presents the preliminary and finalized acquisition-date fair value of the assets acquired and liabilities assumed for the acquisitions in 2018 and through the three months ended March 31, 2019, as well as assets and liabilities (in thousands):

Year Acquired	Preliminary		Finalized	
	Adestra 2018	Rant & Rave 2018	RO Innovation 2018	Interfax 2018
Cash	\$145	\$696	\$197	\$1,396
Accounts receivable	2,814	3,468	1,563	1,587
Other current assets	1,395	3,836	1,299	1,341
Property and equipment	796	131	15	286
Customer relationships	27,542	29,981	6,688	22,577
Trade name	710	1,099	111	649
Technology	6,001	6,565	1,670	5,236
Noncompetes	—	—	1,148	—
Goodwill	28,932	32,589	7,568	13,862
Other assets	—	—	—	14
Total assets acquired	68,335	78,365	20,259	46,948
Accounts payable	(543)	(1,577)	(229)	(737)
Accrued expense and other	(1,758)	(6,114)	(1,921)	(2,847)
Deferred tax liabilities	(5,104)	(3,896)	(2,129)	(3,364)
Deferred revenue	(1,256)	(2,019)	(1,817)	—
Total liabilities assumed	(8,661)	(13,606)	(6,096)	(6,948)
Total consideration	\$59,674	\$64,759	\$14,163	\$40,000

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. Developed technology was valued using a cost-to-recreate approach.

The following table summarizes the weighted-average useful lives, by major finite-lived intangible asset class, for the above acquisitions (in years):

	Useful Life
Customer relationships	9.8
Trade name	8.0
Developed technology	6.7
Non-Compete Agreements	3.0

During the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill based on changes to our estimates and assumptions. The change in the preliminary acquisition-date fair value of assets and liabilities for Adestra during

the three months ended

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March 31, 2019 was related primarily to a \$3.3 million decrease in intangibles (customer relationships, trade name and technology) due to a change in valuation estimates.

The goodwill of \$83.0 million for the above acquisitions is primarily attributable to the synergies expected to arise after the acquisition. Goodwill deductible for tax purposes is \$2.4 million (at the time of the acquisition) for Interfax, and \$2.5 million for RO Innovation. There was no Goodwill deductible for tax purposes for our Adestra and Rant & Rave 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 March 31, 2019 and the three months ended March 31, 2018 were net expense of \$0.5 million and none, respectively.

Total transaction costs, excluding integration and transformation costs, incurred with respect to acquisition activity during the three months ended March 31, 2019 and the three months ended March 31, 2018 were \$0.4 million and \$1.4 million, respectively.

Asset Acquisitions

In connection with the acquisition of Interfax, the Company acquired certain assets and customer relationships of Interfax's U.S. reseller ("Marketech") for \$2.0 million, excluding potential future earn-out payments of \$1.0 million valued at \$0.3 million as of the acquisition dated based on the probability of attainment of future performance-based goals.

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.

As of March 31, 2019 and December 31, 2018 the Company has contingent accrued earnout business acquisition consideration liabilities for which fair values are measured as Level 3 instruments. These contingent consideration liabilities were recorded at fair value on the acquisition date and are remeasured periodically based on the then assessed fair value and adjusted if necessary. The increases or decreases in the fair value of contingent consideration payable can result from changes in anticipated revenue levels or changes in assumed discount periods and rates. As the fair value measure is based on significant inputs that are not observable in the market, they are categorized as Level 3.

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 March 31, 2019 (unaudited)		
	Level 1	Level 2	Level 3 Total
Earnout consideration liability	\$—	—\$1,899	\$1,899
	Fair Value Measurements at December 31, 2018		
	Level 1	Level 2	Level 3 Total
Earnout consideration liability	\$—	—\$1,396	\$1,396

As of March 31, 2019, the Level 3 earnout consideration liability consists of amounts associated with the acquisition Marketech in March 2018 and RO Innovations in June 2018. The increase in cash earnouts from December 31, 2018 to March 31, 2019 is related to changes in the fair value of the earnout for RO Innovation due to an increase in the expected achievement of future annual revenue streams.

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):

March 31,
2019
(unaudited)
Balance at December 31, 2018 \$ 1,396

Remeasurement adjustments:

Loss included in earnings ⁽¹⁾ 503
Balance at March 31, 2019 \$ 1,899

(1) Recorded as a component of other operating income (expense) in the Company's statement of operations.

The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration liabilities designated as Level 3 are as follows:

	Fair Value at March 31, 2019	Valuation Technique	Significant Unobservable Inputs
Contingent acquisition consideration: (Marketech and RO Innovation)	\$ 1,899	Binary option model	Expected future annual revenue streams and probability of achievement
	Fair Value at December 31, 2018	Valuation Technique	Significant Unobservable Inputs
Contingent acquisition consideration: (Marketech and RO Innovation)	\$ 1,396	Binary option model	Expected future annual revenue streams and probability of achievement

Sensitivity to Changes in Significant Unobservable Inputs

As presented in the table above, the significant unobservable inputs used in the fair value measurement of contingent consideration related to business acquisitions are forecasts of expected future annual revenues as developed by the Company's management and the probability of achievement of those revenue forecast. Significant increases (decreases) in these unobservable inputs in isolation would likely result in a significantly (lower) higher fair value measurement.

Debt

The Company believes the carrying value of its long-term debt at March 31, 2019 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, before debt discount, at March 31, 2019 and December 31, 2018 are \$281.4 million and \$283.2 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 three months ended March 31, 2019 are summarized in the table below (in thousands):

Balance at December 31, 2018	\$225,322
Adjustment related to prior year business combinations	2,708
Foreign currency translation adjustment	1,289
Balance at March 31, 2019	\$229,319

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 \$2.7 million adjustment to Goodwill during the three months ended March 31, 2019 is primarily related to changes in the ASC 805 valuation of intangible assets in the prior year business combination of Adestra.

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
March 31, 2019:				
Customer relationships	1-10	\$ 172,541	\$ 35,515	\$ 137,026
Trade name	1.5-10	5,867	3,455	2,412
Developed technology	4-7	48,526	17,945	30,581
Non-compete agreements	3	1,148	287	861
Total intangible assets		\$ 228,082	\$ 57,202	\$ 170,880
	Estimated Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2018:				
Customer relationships	1-10	\$ 173,592	\$ 30,650	\$ 142,942
Trade name	1.5-10	6,113	3,334	2,779
Developed technology	4-7	48,943	16,049	32,894
Non-compete agreements	3	1,148	191	957
Total intangible assets		\$ 229,796	\$ 50,224	\$ 179,572

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 useful life during the three months ended March 31, 2019 and March 31, 2018, respectively. Total amortization expense during the three months ended March 31, 2019 and March 31, 2018 was \$6.8 million and \$3.6 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 2019	\$ 19,554
2020	24,458
2021	23,537
2022	21,226
2023	19,172
2024 and thereafter	62,933
Total	\$ 170,880

5. Income Taxes

The Company's income tax provision for the three months ended March 31, 2019 and March 31, 2018 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 months ended March 31, 2019 and March 31, 2018 is primarily related to foreign income taxes associated with our Canadian, Irish, United Kingdom 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 March 31, 2019 and March 31, 2018, 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 1999 through 2018 remain subject to examination by federal and most state tax authorities due to our net operating loss carryforwards. In foreign jurisdictions, tax years 2014 through 2018 remain subject to examination.

6. Debt

Long-term debt consisted of the following at March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018
Senior secured loans (includes unamortized discount of \$3,327 and \$3,490 based on an imputed interest rate of 6.9%, at March 31, 2019 and December 31, 2018, respectively)	\$278,110	\$279,728
Less current maturities	(6,012)	(6,015)
Total long-term debt	\$272,098	\$273,713

Credit Facility

On May 14, 2015, we entered into a credit agreement (the “Credit Facility”) between the Company, certain of its subsidiaries, and each of the lenders named in the Credit Facility. From time to time the Credit Facility is amended to expand the available borrowing limit in order to fund the Company's acquisitions.

The Credit Facility, as amended, provides for a \$400.0 million credit facility, including (i) a fully drawn \$285.0 million term loan, (ii) a fully available \$30.0 million delayed draw term loan commitment (the “DDTL”) , (iii) a fully available \$30.0 million revolving loan commitment, and (iv) a \$55.0 million uncommitted accordion.

Specifically, the Credit Facility provides for \$285.0 million of term debt comprised of (i) a fully drawn U.S. term loan facility in an aggregate principal amount of \$279.8 million (the “U.S. Term Loan”), and (ii) a fully drawn Canadian term loan facility in an aggregate principal amount of \$5.2 million (the “Canadian Term Loan”) (the Canadian Term Loan and the U.S. Term Loan together are referred to as the “Term Loans”).

In addition, the Credit Facility also provides for revolvers of \$30.0 million, comprised of (i) a U.S. revolving credit facility in an aggregate principal amount of up to \$29.0 million (the “U.S. Revolver”), and (ii) a Canadian revolving credit facility in an aggregate principal amount of up to \$1.0 million (the “Canadian Revolver”) (the Canadian Revolver and the U.S. Revolver are referred to as the “Revolver”). As of March 31, 2019, there were no amounts drawn on its U.S. Revolver or Canadian Revolver loans outstanding under the Credit Facility, and there was \$281.4 million outstanding on the Term Loans comprised of (i) \$276.3 million in the U.S. Term Loan outstanding under the Credit Facility, and (ii) \$5.2 million in the Canadian Term Loan outstanding under the Credit Facility.

Cash interest costs averaged 6.5% and 6.6% under the Credit Facility for the three months ended March 31, 2019 and for the year ended December 31, 2018, respectively.

See Note 13. Subsequent Events in the notes to our unaudited condensed consolidated financial statements for more information regarding additional borrowings made under our Credit Facility subsequent to March 31, 2019.

7. 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	
March 31,	
2019	2018

Numerator:

Net Loss	\$(7,830) \$ (3,161)
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Denominator:

Weighted-average common shares outstanding, basic and diluted	20,442,626 19,759,203
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Net loss per common share, basic and diluted	\$(0.38) \$ (0.16)
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Due to the net losses for the three months ended March 31, 2019 and March 31, 2018, respectively, 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 as of March 31, 2019 and March 31, 2018:

March 31,	
2019	2018

Stock options