Upland Software, Inc.
Form 10-Q
May 13, 2016
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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 March 31, 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 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
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 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 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 ¨ |

Non-accelerated filer x (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 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 May 8, 2016 |
|---|---|
| Common Stock, $0.0001 par value | 17,205,398 |

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

| | March 31, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,585 | $ 18,473 |
| Accounts receivable, net of allowance of $399 and $581 at March 31, 2016 and December 31, 2015, respectively) | 13,161 | 13,972 |
| Prepaid and other | 2,996 | 2,603 |
| Total current assets | 29,742 | 35,048 |
| Canadian tax credits receivable | 1,587 | 2,018 |
| Property and equipment, net | 6,018 | 6,001 |
| Intangible assets, net | 33,913 | 31,526 |
| Goodwill | 64,848 | 47,422 |
| Other assets | 416 | 399 |
| Total assets | $ 136,524 | $ 122,414 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | $ 2,092 | $ 2,548 |
| Accrued compensation | 2,044 | 2,441 |
| Accrued expenses and other | 5,274 | 5,173 |
| Deferred revenue | 21,510 | 19,931 |
| Due to sellers | 9,068 | 2,409 |
| Current maturities of notes payable (includes unamortized discount of $253 and $250 at March 31, 2016 and December 31, 2015, respectively) | 1,497 | 1,500 |
| Total current liabilities | 41,485 | 34,002 |
| Canadian tax credit liability to sellers | 391 | 368 |
| Notes payable, less current maturities (includes unamortized discount of $704 and $758 at March 31, 2016 and December 31, 2015, respectively) | 27,108 | 22,366 |
| Deferred revenue | 26 | 8 |
| Noncurrent deferred tax liability, net | 2,908 | 2,818 |
| Other long-term liabilities | 3,021 | 2,582 |
| Total liabilities | 74,939 | 62,144 |
| Stockholders' equity: | | |
| Common stock, $0.0001 par value; 50,000,000 shares authorized: 17,198,049 and 15,746,288 shares issued and outstanding as of March 31, 2016 and December 31, 2015 respectively | 2 | 2 |
| Additional paid-in capital | 118,859 | 112,447 |
| Accumulated other comprehensive loss | (2,813 ) | (3,289 ) |
| Accumulated deficit | (54,463 ) | (48,890 ) |
| Total stockholders' equity | 61,585 | 60,270 |
| Total liabilities and stockholders' equity | $ 136,524 | $ 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 per share data)

| | Three Months Ended March 31, 2016 (unaudited) | Three Months Ended March 31, 2015 (unaudited) |
|---|---|---|
| Revenue: | | |
| Subscription and support | $15,241 | $ 14,322 |
| Perpetual license | 318 | 811 |
| Total product revenue | 15,559 | 15,133 |
| Professional services | 2,023 | 2,395 |
| Total revenue | 17,582 | 17,528 |
| Cost of revenue: | | |
| Subscription and support | 5,226 | 4,732 |
| Professional services | 1,624 | 1,908 |
| Total cost of revenue | 6,850 | 6,640 |
| Gross profit | 10,732 | 10,888 |
| Operating expenses: | | |
| Sales and marketing | 3,069 | 3,532 |
| Research and development | 3,910 | 3,926 |
| Refundable Canadian tax credits | (109) | (121) |
| General and administrative | 4,123 | 5,119 |
| Depreciation and amortization | 1,472 | 1,014 |
| Acquisition-related expenses | 2,428 | 545 |
| Total operating expenses | 14,893 | 14,015 |
| Loss from operations | (4,161) | (3,127) |
| Other expense: | | |
| Interest expense, net | (561) | (347) |
| Other expense, net | (748) | (512) |
| Total other expense | (1,309) | (859) |
| Loss before provision for income taxes | (5,470) | (3,986) |
| (Provision for) benefit from income taxes | (103) | 243 |
| Net loss | $(5,573) | $ (3,743) |
| Net loss per common share: | | |
| Net loss per common share, basic and diluted | $(0.36) | $ (0.25) |
| Weighted-average common shares outstanding, basic and diluted | 15,432,405 | 14,841,316 |

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)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| Net loss | $(5,573) | $ (3,743) |
| Foreign currency translation adjustment | 476 | (676) |
| Comprehensive loss | $(5,097) | $ (4,419) |

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)

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Operating activities | | |
| Net loss | $(5,573) | $(3,743) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,515 | 2,001 |
| Deferred income taxes | (36) | (73) |
| Foreign currency re-measurement loss | (359) | 272 |
| Non-cash interest and other expense | 64 | 27 |
| Non-cash stock compensation expense | 694 | 554 |
| Loss on disposal of business | 731 | — |
| Changes in operating assets and liabilities, net of purchase business combinations: | | |
| Accounts receivable | 1,070 | (512) |
| Prepaids and other | 150 | (394) |
| Accounts payable | (623) | 859 |
| Accrued expenses and other liabilities | (85) | (807) |
| Deferred revenue | 1,334 | 1,428 |
| Net cash provided by (used in) operating activities | (118) | (388) |
| Investing activities | | |
| Purchase of property and equipment | (680) | (192) |
| Purchase of customer relationships | (408) | — |
| Purchase business combinations, net of cash acquired | (8,102) | (2,820) |
| Net cash used in investing activities | (9,190) | (3,012) |
| Financing activities | | |
| Payments on capital leases | (519) | (231) |
| Proceeds from notes payable, net of issuance costs | 4,987 | — |
| Payments on notes payable | (309) | (996) |
| Issuance of common stock, net of issuance costs | 18 | 6 |
| Net cash provided by (used in) financing activities | 4,177 | (1,221) |
| Effect of exchange rate fluctuations on cash | 243 | 221 |
| Change in cash and cash equivalents | (4,888) | (4,400) |
| Cash and cash equivalents, beginning of period | 18,473 | 30,988 |
| Cash and cash equivalents, end of period | $13,585 | $26,588 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | $496 | $323 |
| Cash paid for taxes | $2 | $96 |
| Noncash investing and financing activities: | | |
| Equipment acquired pursuant to capital lease obligations | $221 | $578 |
| Issuance of common stock in business combination | $5,700 | $— |

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

Upland Software, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
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 months ended March 31, 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, warrant liabilities, 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, 2016 or 2015 or for the year ended December 31, 2015, or more than 10% of accounts receivable as of March 31, 2016.
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. The Company is currently evaluating the effect that the adoption of ASU 2015-17 will have on its financial statements as well as timing of adoption and method of adoption.

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.

## 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 for the three months ended March 31, 2016 were approximately $669,000.

In addition to the cash consideration described above, the Asset Purchase Agreement included a contingent share consideration component pursuant to which Upland expects to issue an aggregate of approximately $2.4 million in common stock (to be determined on trigger date) of its common stock to the seller after July 7, 2016 based on certain minimal post-closing performance-based conditions. 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 for the three months ended March 31, 2016 were approximately $350,000.

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 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 mid-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 divested (in thousands):

| | HipCricket | Website Analytics Business | Divestiture of EPM Live |
|---|---|---|---|
| Year Acquired or Divested | 2016 | 2016 | 2016 |
| Cash | $ — | $ 290 | $ — |
| Accounts receivable | 1,275 | 178 | (1,404) |
| Other current assets | 238 | 55 | (339) |
| Property and equipment | — | 5 | (98) |
| Customer relationships | 1,900 | 2,310 | (1,796) |
| Trade name | 70 | 70 | — |
| Technology | 900 | 1,390 | (936) |
| Goodwill | 7,747 | 12,524 | (3,692) |
| Other assets | — | 6 | — |
| Total assets acquired | 12,130 | 16,828 | (8,265) |
| Accounts payable | (200) | — | 41 |
| Accrued expense and other | — | (178) | 83 |
| Deferred revenue | (330) | (910) | 1,511 |
| Total liabilities assumed | (530) | (1,088) | 1,635 |
| Total consideration | $ 11,600 | $ 15,740 | $ (6,630) |

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 Goodwill divested with EPM Live was based on the relative fair value of EPM Live to the Company's fair value immediately prior to the divestiture.

Goodwill deductible for tax purposes is $4.9 million for our website analytics business acquisition and $8.2 million for HipCricket.

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 March 31, 2016 (unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Earnout consideration liability | $— | $ — | $ 6,640 | $ 6,640 |

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. The $6.1 million of 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 $2.4 million in common stock and $5 million in cash (see Note 2).

In connection with the Company's acquisition of Hipcricket, the Company transferred the net assets of its EPM Live business to the seller (see Note 2). To record the effect of the transfer of the net assets of EPM Live, the Company determined the fair value of such assets as $5.9 million on the date of disposition. Such fair value determination was based upon a Level 3 hierarchy and included management assumptions such as financial forecasts, discount rates and market multiples based upon comparable companies.

| | Fair Value Measurements at March 31, 2016 (unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| EPM Live enterprise value | $— | $ — | $ 5,900 | $ 5,900 |

Debt

The Company believes the carrying value of its long-term debt at March 31, 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 March 31, 2016 and December 31, 2015 is $29.6 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 three months ended March 31, 2016 are summarized in the table below (in thousands):

| | |
|---|---|
| Balance at December 31, 2015 | $47,422 |
| Acquired in business combinations | 20,271 |
| Divestiture of business | (3,692 ) |
| Adjustment due to finalization of business combinations | 67 |
| Foreign currency translation adjustment | 780 |
| Balance at March 31, 2016 | $64,848 |

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 |
| March 31, 2016: | | | | |
| Customer relationships | 1-10 | $ 33,861 | $ 9,533 | $ 24,328 |
| Trade name | 1-3 | 2,604 | 2,146 | 458 |
| Developed technology | 4-7 | 14,481 | 5,354 | 9,127 |
| Total intangible assets | | $ 50,946 | $ 17,033 | $ 33,913 |

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:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Customer relationships | 8.1 | 9.3 |
| Trade name | 2.8 | 2.9 |
| Developed technology | 5.4 | 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 months ended March 31, 2016 and 2015. Total amortization expense was $1.9 million and $1.4 million during the three months ended March 31, 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 | $ 5,241 |
| 2017 | 5,948 |
| 2018 | 5,623 |
| 2019 | 4,808 |
| 2020 and thereafter | 12,293 |
| Total | $ 33,913 |

5. Income Taxes

The Company's income tax provision for the three months ended March 31, 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 months ended March 31, 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 March 31, 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 March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Numerator: | | |
| Net Loss | $(5,573) | $ (3,743 ) |
| Denominator: | | |
| Weighted–average common shares outstanding, basic and diluted | 15,432,405 | 14,841,316 |
| Net loss per common share, basic and diluted | $(0.36 ) | $ (0.25 ) |

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Due to the net losses for the three months ended March 31, 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 included $2.4 million in contingent common shares subject to the achievement of certain revenue targets, issuable in the third quarter of 2016):

| | March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Stock options | 751,201 | 616,705 |
| Restricted stock | 983,937 | 431,872 |
| Total anti–dilutive common share equivalents | 1,735,138 | 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 $0.6 million was incurred during the three months ended March 31, 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 three months ended March 31, 2016 was as follows:

| | Number of Restricted Shares Outstanding | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Unvested balances at December 31, 2015 | 513,943 | |
| Awards granted | 492,317 | |
| Awards vested | (22,323) | |
| Awards forfeited | — | |
| Unvested balances at March 31, 2016 | 983,937 | $ 7.60 |

Stock Option Activity

Stock option activity during the three months ended March 31, 2016 was as follows:

| | Number of Options Outstanding | Weighted–Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2015 | 778,388 | $ 5.75 |
| Options granted | 2,408 | |