

Upland Software, Inc.
Form 10-Q
August 14, 2017
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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 June 30, 2017

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company) Smaller reporting company

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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.

Class	Shares Outstanding at August 4, 2017
Common Stock, \$0.0001 par value	20,599,395

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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, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 57,420	\$ 28,758
Accounts receivable (net of allowance of \$940 and \$658 at June 30, 2017 and December 31, 2016, respectively)	14,278	15,254
Prepaid and other	2,766	3,287
Total current assets	74,464	47,299
Canadian tax credits receivable	1,242	978
Property and equipment, net	3,876	4,356
Intangible assets, net	41,172	28,512
Goodwill	103,778	69,097
Other assets	330	346
Total assets	\$ 224,862	\$ 150,588
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,482	\$ 1,268
Accrued compensation	2,469	2,541
Accrued expenses and other	7,704	5,505
Deferred revenue	29,870	23,552
Due to sellers	6,695	4,642
Current maturities of notes payable (includes unamortized discount of \$103 and \$329 at June 30, 2017 and December 31, 2016, respectively)	3,666	2,190
Total current liabilities	52,886	39,698
Canadian tax credit liability to sellers	—	361
Notes payable, less current maturities (includes unamortized discount of \$307 and \$1,113 at June 30, 2017 and December 31, 2016, respectively)	68,593	45,739
Deferred revenue	1,372	247
Noncurrent deferred tax liability, net	3,853	3,404
Other long-term liabilities	1,624	2,126
Total liabilities	128,328	91,575
Stockholders' equity:		
Common stock, \$0.0001 par value; 50,000,000 shares authorized: 20,599,395 and 17,785,288 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	173,179	124,566
Accumulated other comprehensive loss	(2,819)	(3,152)
Accumulated deficit	(73,828)	(62,403)
Total stockholders' equity	96,534	59,013
Total liabilities and stockholders' equity	\$ 224,862	\$ 150,588

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Subscription and support	\$19,407	\$16,220	\$37,542	\$31,461
Perpetual license	1,746	458	2,440	776
Total product revenue	21,153	16,678	39,982	32,237
Professional services	2,128	1,892	4,051	3,915
Total revenue	23,281	18,570	44,033	36,152
Cost of revenue:				
Subscription and support	6,676	5,634	12,569	10,860
Professional services	1,327	1,106	2,462	2,730
Total cost of revenue	8,003	6,740	15,031	13,590
Gross profit	15,278	11,830	29,002	22,562
Operating expenses:				
Sales and marketing	4,037	2,953	7,258	6,022
Research and development	4,003	4,054	7,480	7,964
Refundable Canadian tax credits	(112)	(116)	(229)	(225)
General and administrative	6,576	4,547	12,480	8,670
Depreciation and amortization	1,299	1,476	2,463	2,948
Acquisition-related expenses	2,278	1,380	5,969	3,808
Total operating expenses	18,081	14,294	35,421	29,187
Loss from operations	(2,803)	(2,464)	(6,419)	(6,625)
Other expense:				
Interest expense, net	(1,160)	(662)	(2,095)	(1,223)
Loss on debt extinguishment	(1,634)	—	(1,634)	—
Other expense, net	(18)	(293)	(130)	(1,041)
Total other expense	(2,812)	(955)	(3,859)	(2,264)
Loss before provision for income taxes	(5,615)	(3,419)	(10,278)	(8,889)
Provision for income taxes	(196)	(158)	(1,147)	(261)
Net loss	\$(5,811)	\$(3,577)	\$(11,425)	\$(9,150)
Net loss per common share:				
Net loss per common share, basic and diluted	\$(0.33)	\$(0.22)	\$(0.66)	\$(0.58)
Weighted-average common shares outstanding, basic and diluted	17,778,184	16,269,808	17,374,789	15,851,106

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

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net loss	\$(5,811)	\$(3,577)	\$(11,425)	\$(9,150)
Foreign currency translation adjustment	255	5	333	481
Comprehensive loss	\$(5,556)	\$(3,572)	\$(11,092)	\$(8,669)

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)

	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net loss	\$(11,425)	\$(9,150)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,046	5,075
Deferred income taxes	392	102
Foreign currency re-measurement (gain) loss	(182)	(261)
Non-cash interest and other expense	120	129
Non-cash stock compensation expense	5,920	1,564
Loss on disposal of business	—	731
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	4,038	1,364
Prepays and other	846	549
Accounts payable	857	(1,509)
Accrued expenses and other liabilities	(462)	258
Deferred revenue	(1,024)	2,095
Net cash provided by operating activities	5,742	947
Investing activities		
Purchase of property and equipment	(375)	(851)
Purchase of customer relationships	(55)	(408)
Purchase business combinations, net of cash acquired	(37,041)	(11,844)
Net cash used in investing activities	(37,471)	(13,103)
Financing activities		
Payments on capital leases	(745)	(908)
Proceeds from notes payable, net of issuance costs	33,308	14,987
Payments on notes payable	(10,725)	(1,122)
Issuance of common stock, net of issuance costs	42,701	113
Additional consideration paid to sellers of businesses	(4,338)	(1,484)
Net cash provided by financing activities	60,201	11,586
Effect of exchange rate fluctuations on cash	190	284
Change in cash and cash equivalents	28,662	(286)
Cash and cash equivalents, beginning of period	28,758	18,473
Cash and cash equivalents, end of period	\$57,420	\$18,187
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$1,984	\$1,093
Cash paid for taxes	\$1,172	\$249
Noncash investing and financing activities:		