

TANGOE INC

FORM 10-Q (Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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: 001-35247

TANGOE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

35 Executive Blvd.
Orange, Connecticut
(Address of principal executive offices)

06-1571143
(I.R.S. Employer
Identification Number)

06477
(Zip Code)

(203) 859-9300
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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

There were 39,430,820 shares of our common stock outstanding on October 31, 2015.



TABLE OF CONTENTS

	<u>Page</u>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2014 and September 30, 2015</u>	4
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and 2015</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (loss) for the Three and Nine Months Ended September 30, 2014 and 2015</u>	6
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2015</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2015</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 6. Exhibits</u>	49
<u>Signatures</u>	50

PRELIMINARY NOTES

When we use the terms “Tangoe,” the “Company,” “we,” “us” and “our,” we mean Tangoe, Inc. and its consolidated subsidiaries.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this quarterly report regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “target,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- our estimates regarding expenses and future revenue;
- our plans to develop, improve and market our products and services;
- the advantages of our products and services as compared to those of others;
- our ability to attract and retain customers;
- our financial performance;
- our ability to establish and maintain intellectual property rights;
- our ability to retain and hire necessary employees and appropriately staff our operations; and
- our estimates regarding capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. The important factors discussed below under Part II “Other Information”, Item 1A. “Risk Factors”, among others, could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this quarterly report and the documents that we have filed as exhibits to this quarterly report with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

We expressly qualify in their entirety all forward-looking statements attributable to us or any person acting on our behalf by the cautionary statements contained or referred to in this section.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

TANGOE, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31, 2014	September 30, 2015 (unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 51,279	\$ 36,559
Accounts receivable, less allowances of \$588 and \$1,007, respectively	56,948	60,716
Prepaid expenses and other current assets	5,901	12,472
Total current assets	114,128	109,747
COMPUTERS, FURNITURE AND EQUIPMENT-NET	5,217	5,803
OTHER ASSETS:		
Intangible assets-net	28,753	34,455
Goodwill	65,348	75,767
Security deposits and other non-current assets	1,566	1,900
TOTAL ASSETS	\$ 215,012	\$ 227,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,733	\$ 11,898
Accrued expenses	8,283	11,328
Deferred revenue-current portion	10,858	11,699
Notes payable-current portion	1,400	2,419
Total current liabilities	31,274	37,344
OTHER LIABILITIES:		
Deferred taxes and other non-current liabilities	4,372	4,854
Deferred revenue-less current portion	1,030	461
Notes payable-less current portion	166	2,621
Total liabilities	36,842	45,280
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.0001 per share-150,000,000 shares authorized as of December 31, 2014 and September 30, 2015; 38,621,169 and 39,398,240 shares issued and outstanding as of December 31, 2014 and September 30, 2015, respectively	4	4
Additional paid-in capital	215,491	227,954
Warrants for common stock	10,610	10,610
Accumulated deficit	(45,859)	(52,645)
Accumulated other comprehensive loss	(2,076)	(3,531)
Total stockholders' equity	178,170	182,392
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 215,012	\$ 227,672

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

TANGOE, INC.
Condensed Consolidated Statements of Operations (unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Revenue:				
Recurring technology and services	\$ 48,184	\$ 52,638	\$ 141,252	\$ 151,491
Strategic consulting, software licenses and other	6,297	3,935	16,297	13,029
Total revenue	<u>54,481</u>	<u>56,573</u>	<u>157,549</u>	<u>164,520</u>
Cost of revenue:				
Recurring technology and services	23,035	25,969	66,633	71,184
Strategic consulting, software licenses and other	2,419	2,223	6,760	6,539
Total cost of revenue	<u>25,454</u>	<u>28,192</u>	<u>73,393</u>	<u>77,723</u>
Gross profit	29,027	28,381	84,156	86,797
Operating expenses:				
Sales and marketing	9,494	11,164	29,621	32,373
General and administrative	9,918	11,289	28,550	32,102
Research and development	5,767	6,954	16,690	19,894
Depreciation and amortization	2,347	2,558	7,426	7,051
Income (loss) from operations	<u>1,501</u>	<u>(3,584)</u>	<u>1,869</u>	<u>(4,623)</u>
Other income (expense), net				
Interest expense	(33)	(75)	(81)	(172)
Interest income	8	2	26	18
Other income (expense)	94	(151)	79	(152)
Income (loss) before income tax provision	1,570	(3,808)	1,893	(4,929)
Income tax provision	635	694	1,628	1,857
Net income (loss)	<u>\$ 935</u>	<u>\$ (4,502)</u>	<u>\$ 265</u>	<u>\$ (6,786)</u>
Income (loss) per common share:				
Basic	<u>\$ 0.02</u>	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.17)</u>
Diluted	<u>\$ 0.02</u>	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.17)</u>
Weighted average number of common shares:				
Basic	<u>38,799</u>	<u>39,314</u>	<u>38,609</u>	<u>39,042</u>
Diluted	<u>41,109</u>	<u>39,314</u>	<u>41,134</u>	<u>39,042</u>

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

TANGOE, INC.
Condensed Consolidated Statements of Comprehensive Income (loss) (unaudited)
(in thousands)

	<u>For the Three Months ended</u>		<u>For the Nine Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Net income (loss)	\$ 935	\$ (4,502)	\$ 265	\$ (6,786)
Foreign currency translation adjustment	(926)	(903)	(700)	(1,455)
Total	\$ 9	\$ (5,405)	\$ (435)	\$ (8,241)

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

TANGOE, INC.
Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)
For the Nine Months Ended September 30, 2015
(in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Common Stock Warrants	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Number of Shares	Amount					
Balance December 31, 2014	38,621,169	\$ 4	\$ 215,491	\$ 10,610	\$ (45,859)	\$ (2,076)	\$ 178,170
Net loss	—	—	—	—	(6,786)	—	(6,786)
Foreign currency translation adjustment	—	—	—	—	—	(1,455)	(1,455)
Issuance of shares to certain employees	260,394	—	2,513	—	—	—	2,513
Issuance of shares from exercise of stock options	224,855	—	855	—	—	—	855
Issuance of shares from vesting of restricted stock units	466,098	—	—	—	—	—	—
Repurchase of common stock	(174,276)	—	(2,000)	—	—	—	(2,000)
Stock-based compensation	—	—	11,095	—	—	—	11,095
Balance September 30, 2015	<u>39,398,240</u>	<u>\$ 4</u>	<u>\$ 227,954</u>	<u>\$ 10,610</u>	<u>\$ (52,645)</u>	<u>\$ (3,531)</u>	<u>\$ 182,392</u>

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

TANGO, INC.
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2014	2015
Operating activities:		
Net income (loss)	\$ 265	\$ (6,786)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of debt discount	45	18
Amortization of leasehold interest	(74)	(74)
Depreciation and amortization	7,426	7,051
Decrease in deferred rent liability	(29)	(12)
Amortization of marketing agreement intangible assets	332	464
Allowance for doubtful accounts	90	590
Deferred income taxes	733	528
Foreign exchange adjustment	32	—
Stock based compensation	14,605	13,798
Loss on disposal of fixed asset	—	27
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(9,167)	(4,768)
Prepaid expenses and other assets	(1,260)	(1,210)
Other assets	(357)	128
Accounts payable	(204)	1,206
Accrued expenses	(323)	3,198
Deferred revenue	90	(1,037)
Net cash provided by operating activities	<u>12,204</u>	<u>13,121</u>
Investing activities:		
Purchases of computers, furniture and equipment	(2,699)	(2,804)
Cash paid in connection with acquisitions, net of cash received	(881)	(22,541)
Net cash used in investing activities	<u>(3,580)</u>	<u>(25,345)</u>
Financing activities:		
Borrowings of debt	177	608
Repayment of debt	(658)	(1,578)
Repurchase of common stock	(4,000)	(2,000)
Proceeds from exercise of stock options and stock warrants	1,897	855
Net cash used in financing activities	<u>(2,584)</u>	<u>(2,115)</u>
Effect of exchange rate on cash	(304)	(381)
Net increase (decrease) in cash and cash equivalents	5,736	(14,720)
Cash and cash equivalents, beginning of period	43,182	51,279
Cash and cash equivalents, end of period	<u>\$ 48,918</u>	<u>\$ 36,559</u>

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

TANGOE, INC
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization, Description of Business

Nature of Operations

Tangoe, Inc. (the “Company”), a Delaware corporation, was incorporated on February 9, 2000 as TelecomRFQ, Inc. During 2001, the Company changed its name to Tangoe, Inc. The Company provides connection lifecycle management software and related services to a wide range of global enterprises and service providers. Connection lifecycle management encompasses the entire spectrum of an enterprise’s connection-based assets and services, such as voice and data services, mobile devices and usage, cloud software, infrastructure and services, machine-to-machine connections, enterprise social and information technology connections, including planning and sourcing, procurement and provisioning, inventory and usage management, mobile device management, real-time telecommunication expense management, invoice processing and payment, expense allocation and accounting and asset decommissioning and disposal. The Company’s on-demand Matrix Solution Suite is a suite of software designed to manage IT expenses and to manage and optimize the complex processes and expenses associated with this connection lifecycle. The Company’s Matrix Solution Suite and related services have historically focused on enterprises’ fixed and mobile connections and related assets, usage, expenses and analytics. The Company continues to enhance and expand its software and service offerings by developing and implementing additional capabilities, including capabilities designed to manage the entire range of an enterprise’s IT expenses, and to turn on, track, manage, secure and support various connections in an enterprise’s connection lifecycle, such as cloud software, infrastructure and services, machine-to-machine, enterprise social and information technology connections. The Company refers to its Matrix Solution Suite and related service offerings as Matrix.

Basis of Presentation of Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of the Company’s financial position and results of operations for the periods presented have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, for any other interim period or for any other future year.

The consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as filed with the Securities Exchange Commission (“SEC”) on March 16, 2015 (the “2014 Form 10-K”).

Significant Accounting Policies

The Company’s significant accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2014 included in the 2014 Form 10-K. Since the date of those financial statements, there have been no material changes to the Company’s significant accounting policies.

TANGOE, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

2. Business Combination

Rivermine

On May 6, 2015, the Company entered into an Asset Purchase Agreement with International Business Machines Corporation (“IBM”), a Delaware corporation, pursuant to which the parties agreed to the purchase by the Company of certain assets and liabilities of IBM’s Rivermine Telecommunications Expense Management business (“Rivermine”) through an asset purchase (the “Rivermine Acquisition”). The Rivermine Acquisition closed on May 31, 2015. At the closing of the Rivermine Acquisition, the Company acquired Rivermine for aggregate consideration of \$22.0 million payable at closing. As part of this acquisition, IBM is paying the Company \$1.2 million related to Rivermine’s deferred revenue balance. The Company has included the operating results of Rivermine in its condensed consolidated financial statements since the date of acquisition through September 30, 2015, including recurring technology and services revenue of \$7.4 million.

Rivermine Purchase Price Allocation

The preliminary allocation of the total purchase price of Rivermine’s net tangible and identifiable intangible assets was based upon the Company’s estimated fair value of those assets as of May 31, 2015. The Company is in the process of analyzing the valuation of the Rivermine net tangible and identifiable intangible assets and once complete any adjustments will be recorded in the fourth quarter of 2015. The Company allocated the excess of purchase price over the identifiable intangible and net tangible assets to goodwill. The following table presents the cash purchase consideration and the preliminary allocation of the total purchase price (in thousands):

Purchase consideration:	
Cash	\$ 22,000
Less: Due from Seller	(1,167)
	<u>\$ 20,833</u>
Preliminary allocation of purchase consideration:	
Property and equipment	97
Identifiable intangible assets	11,000
Goodwill	11,097
Total assets acquired	<u>22,194</u>
Deferred revenue	(1,361)
	<u>\$ 20,833</u>

The goodwill and identifiable intangible assets related to the Rivermine Acquisition are tax deductible. The Company estimated the fair value of intangible assets using the income, cost and market approaches to value the identifiable intangible assets, which are subject to amortization. The following table presents the Company’s preliminary allocation of the estimated fair value of the identifiable intangible assets acquired:

Description	Fair Value (in thousands)	Weighted Average Useful Life (in years)
Customer relationships	\$ 9,000	9.0
Technology	2,000	3.0
Total identifiable intangible assets	<u>\$ 11,000</u>	

TANGOE, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

3. Unaudited Pro Forma Results

The following table presents the unaudited pro forma results of the Company for the three and nine months ended September 30, 2014 and 2015 as if the acquisition of Rivermine occurred at the beginning of 2014. These results are not intended to reflect the actual operations of the Company had this acquisition occurred at January 1, 2014.

<u>(in thousands, except per share amounts)</u>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Revenue	\$ 61,336	\$ 56,573	\$ 178,115	\$ 175,900
Operating income (loss)	742	(3,584)	(409)	(6,600)
Net income (loss)	176	(4,502)	(2,013)	(8,763)
Basic income (loss) per common share	\$ 0.00	\$ (0.11)	\$ (0.05)	\$ (0.22)
Diluted income (loss) per common share	\$ 0.00	\$ (0.11)	\$ (0.05)	\$ (0.22)

4. Income (loss) per Share Applicable to Common Stockholders

The following table sets forth the computations of income (loss) per share applicable to common stockholders for the three and nine months ended September 30, 2014 and 2015:

<u>(in thousands, except per share amounts)</u>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Basic and diluted net income (loss) per common share				
Net income (loss)	\$ 935	\$ (4,502)	\$ 265	\$ (6,786)
Basic weighted-average common shares used to compute basic net income (loss) per share	38,799	39,314	38,609	39,042
Outstanding stock options	2,241	—	2,374	—
Outstanding restricted stock units	69	—	150	—
Common stock warrants	—	—	1	—
Diluted weighted-average common shares used to compute diluted net income (loss) per share	41,109	39,314	41,134	39,042
Basic income (loss) per common share	\$ 0.02	\$ (0.11)	\$ 0.01	\$ (0.17)
Diluted income (loss) per common share	\$ 0.02	\$ (0.11)	\$ 0.01	\$ (0.17)

Diluted income (loss) per common share for the periods presented does not reflect the following potential common shares as the effect would be anti-dilutive either because the proceeds under the treasury stock method were in excess of the average fair market value for the period or because the Company had a net loss in the period.

Outstanding stock options	3,434	3,559	3,302	3,297
Outstanding restricted stock units	1,177	1,248	1,096	1,091
Common stock warrants	10	10	9	10

TANGO, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

5. Computers, Furniture and Equipment-Net

Computers, furniture and equipment-net consist of:

(in thousands)	As of	
	December 31, 2014	September 30, 2015
Computers and software	\$ 14,386	\$ 17,054
Furniture and fixtures	1,345	1,294
Leasehold improvements	1,595	1,646
	17,326	19,994
Less accumulated depreciation	(12,109)	(14,191)
Computers, furniture and equipment-net	\$ 5,217	\$ 5,803

Computers and software includes equipment under capital leases totaling approximately \$2.5 million and \$2.6 million at December 31, 2014 and September 30, 2015, respectively. Accumulated depreciation on equipment under capital leases totaled approximately \$2.5 million at each of December 31, 2014 and September 30, 2015. Depreciation and amortization expense associated with computers, furniture and equipment for the nine months ended September 30, 2014 and 2015 was \$1.9 million and \$2.4 million, respectively.

6. Intangible Assets and Goodwill

The following table presents the components of the Company's intangible assets as of December 31, 2014 and September 30, 2015:

(in thousands)	December 31, 2014	September 30, 2015	Weighted Average Useful Life (in years)
Patents	\$ 1,054	\$ 1,054	8.0
Less: accumulated amortization	(1,029)	(1,054)	
Patents, net	25	0	
Technological know-how	14,802	16,533	5.7
Less: accumulated amortization	(10,245)	(11,609)	
Technological know-how, net	4,557	4,924	
Customer relationships	37,758	46,660	8.8
Less: accumulated amortization	(19,208)	(22,081)	
Customer relationships, net	18,550	24,579	
Convenants not to compete	1,094	1,026	2.0
Less: accumulated amortization	(1,049)	(1,026)	
Convenants not to compete, net	45	0	
Strategic marketing agreement	6,203	6,203	10.0
Less: accumulated amortization	(1,090)	(1,554)	
Strategic marketing agreement, net	5,113	4,649	
Tradenames	857	841	3.8
Less: accumulated amortization	(641)	(785)	
Tradenames, net	216	56	
Trademarks	247	247	Indefinite
Intangible assets, net	\$ 28,753	\$ 34,455	

TANGOE, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

The related amortization expense of intangible assets for the nine months ended September 30, 2014 and 2015 was \$5.5 million and \$4.7 million, respectively. The Company's estimate of future amortization expense for acquired intangible assets that exist at September 30, 2015 is as follows:

(in thousands)	
October 1, 2015 to December 31, 2015	\$ 1,732
2016	7,187
2017	6,608
2018	5,852
2019	4,509
Thereafter	8,320
Total	\$ 34,208

The following table presents the changes in the carrying amounts of goodwill for the nine months ended September 30, 2015.

(in thousands)	Carrying Amount
Balance at December 31, 2014	\$ 65,348
Rivermine acquisition	11,097
Foreign exchange translation effect	(678)
Balance at September 30, 2015	<u>\$ 75,767</u>

7. Debt

As of December 31, 2014 and September 30, 2015, debt outstanding included the following:

(in thousands)	December 31, 2014	September 30, 2015
HCL-EMS contingent consideration. Payable as described below.	\$ 541	\$ —
Deferred oneTEM purchase price, net of unamortized discount of \$37 and \$21 at December 31, 2014 and September 30, 2015, respectively. Payable as described below.	235	252
Capital lease and other obligations	790	4,788
Total notes payable	\$ 1,566	\$ 5,040
Less current portion	\$ (1,400)	\$ (2,419)
Notes payable, less current portion	\$ 166	\$ 2,621

Line of Credit

The Company had a line of credit of up to \$8.0 million based upon 80% of the Company's eligible accounts receivable with JP Morgan Chase Bank, N.A., which line of credit the Company had not utilized following its initial public offering in August 2011. The line of credit bore interest at the London Inter-Bank Offered Rate plus a 2.0% spread. The

TANGOE, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

line of credit matured in September 2015. The Company is currently in negotiations to renew the line of credit for an additional year. As of December 31, 2014 and September 30, 2015, there were no balances outstanding on the line of credit. The line of credit had a financial covenant relative to minimum cash balance requirements and was secured by all of the Company's tangible and intangible property.

Contingent HCL-EMS Consideration

The purchase consideration for the Company's acquisition of substantially all of the assets and certain liabilities of HCL Expense Management Services, Inc. ("HCL-EMS") in January 2011 included deferred cash consideration. The deferred cash consideration included contingent cash payments following each of the first and second anniversaries of the closing date of the HCL-EMS acquisition on January 25, 2011 (the "HCL-EMS Closing Date"), pursuant to an earn-out formula based upon specified revenues from specified customers acquired from HCL-EMS, subject to set-off rights of the Company with respect to indemnities given by HCL-EMS under the Asset Purchase Agreement entered into in December 2010 in connection with the HCL-EMS acquisition (the "HCL-EMS APA"). No interest accrued on the deferred cash consideration; however, the Company recorded imputed interest in the amount of \$0.6 million based on the Company's weighted average cost of debt as of the date of the acquisition. The obligation to pay the deferred cash consideration is unsecured. In 2012, the Company and HCL-EMS agreed that the gross amount of the first year earn-out would be \$1.9 million and the Company paid that amount to HCL-EMS. In April 2013, the Company and HCL-EMS agreed that the gross amount of the second year earn-out would be \$1.9 million. In early August 2013, the Company paid \$1.0 million of the second year earn-out to HCL-EMS, and retained the balance of the second year earn-out in the amount of \$0.9 million pending resolution of an outstanding indemnity matter. In September 2014, the Company paid \$0.4 million in satisfaction of the third-party claim that triggered the indemnity matter and the contingent consideration balance was reduced by this amount. In September 2015, the Company paid in full the remaining \$0.5 million of contingent consideration and the outstanding indemnity matter has been settled.

Deferred oneTEM Purchase Price

The purchase consideration for the Company's acquisition of oneTEM GMBH, a private limited company incorporated in Germany ("oneTEM"), on April 18, 2013 (the "oneTEM Closing Date") includes deferred cash consideration and contingent earn-out cash consideration. The deferred cash consideration consists of a payment of €0.4 million in cash payable on the first anniversary of the oneTEM Closing Date. The contingent earn-out cash consideration is payable pursuant to an earn-out formula based upon the business, whose historic revenue had been one-time consulting revenue, beginning to generate annual recurring revenue from specified customers and then year-over-year increases in annual recurring revenue from those specified customers during the earn-out periods. The earn-out period begins with the first full month after the oneTEM Closing Date and continues for four consecutive 12-month periods. The Company valued this contingent earn-out cash consideration at €0.2 million. No interest accrues on the deferred cash consideration or contingent earn-out consideration; however, the Company recorded imputed interest in the amount of €0.1 million based on weighted average cost of capital as of the date of the acquisition. The deferred consideration was and the contingent earn-out cash consideration is subject to set-off rights of the Company with respect to certain indemnities given by the former holders of the issued share capital of oneTEM under the Share Purchase Agreement by and between the Company and oneTEM (the "oneTEM Purchase Agreement"). In April 2014, the Company paid the full €0.4 million of deferred consideration which was payable on the first anniversary of the oneTEM Closing Date. This payment did not include any amounts related to the 2014 earn-out period. No amounts have become payable under the earn-out terms for the 12-month periods of May 2013 to April 2014 and May 2014 to April 2015.

Capital Lease and Other Obligations

The Company is party to an installment payment agreement with a vendor under which the Company financed \$3.5 million of software license fees. The term of this agreement began in April 2015 and continues for three years with twelve quarterly installment payments.

TANGO, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

8. Stockholders' Equity

Common Stock

As of December 31, 2014 and September 30, 2015, the number of authorized shares of common stock, par value \$0.0001 per share, was 150,000,000, of which 38,621,169 and 39,398,240 were issued and outstanding, respectively.

At the June 5, 2015 annual meeting of the Company's stockholders, an amendment to the Company's 2011 Stock Incentive Plan (the "2011 Plan") to reserve an additional 2,200,000 shares of common stock for issuance under the 2011 Plan was approved by the Company's stockholders. The Company's board of directors had previously approved such amendment. The Company registered these shares by filing a Form S-8 with the SEC on July 13, 2015.

During the nine months ended September 30, 2015, the Company issued 260,394 shares of its common stock to certain of its employees under the provisions of the 2011 Plan in the form of stock awards, as well as additional shares of common stock upon the exercise of stock options and the vesting of restricted stock units as described below. For the nine months ended September 30, 2015, the recorded stock-based compensation expenses of \$2.5 million related to common stock issuances to certain of its employees and members of its board of directors.

In November 2014, the Company's board of directors authorized a share repurchase program under which the Company may repurchase up to \$30 million of its outstanding common stock on the open market or in privately negotiated transactions. The \$30 million includes \$2.3 million of unused funds from a previous \$20 million share repurchase program announced in 2012. During the nine months ended September 30, 2015, the Company repurchased 174,276 shares of common stock at an average price per share, including broker commissions, of \$11.48, for an aggregate purchase price of \$2.0 million.

Preferred Stock

As of December 31, 2014 and September 30, 2015, the number of authorized shares of preferred stock, par value \$0.0001 per share, was 5,000,000, of which 0 were issued and outstanding.

Common Stock Warrants

On March 22, 2011, the Company issued a warrant to purchase up to 1,282,789 shares of its common stock to Dell Products, L.P. ("Dell") in connection with the entry of the Company and Dell into a 49-month strategic relationship agreement. Under the terms of the warrant, the 1,282,789 shares of common stock were eligible to become exercisable upon the achievement of certain annual recurring revenue thresholds over the 49-month period that ended on December 31, 2014. The warrant was exercisable at \$5.987 per share. As of December 31, 2014, the vesting term of the warrant expired with Dell earning no warrant shares.

A summary of activity with respect to warrants to purchase common stock during the nine months ended September 30, 2015 is presented below:

	Common Stock Warrants
Outstanding at beginning of the year	10,000
Exercised	—
Issued	—
Cancelled	—
Outstanding at end of the period	10,000
Weighted average exercise price	\$ 14.02

TANGOE, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

Stock Options

As of September 30, 2015, the Company had five stock-based compensation plans, the Employee Stock Option/Stock Issuance Plan (the “Employee Plan”), the Executive Stock Option/Stock Issuance Plan (the “Executive Plan”), the 2005 Stock Incentive Plan (the “2005 Plan”), the Traq Amended and Restated 1999 Stock Plan (the “1999 Plan”) and the 2011 Plan. In connection with the Company’s initial public offering, the Company’s board of directors determined that no future stock awards would be made under the Employee Plan, the Executive Plan, the 2005 Plan and the 1999 Plan. The 2011 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards and other stock-based awards.

Under the provisions of the Employee Plan, the Executive Plan, the 2005 Plan, the 1999 Plan and the 2011 Plan (the “Plans”), the exercise price of each option is determined by the Company’s board of directors or by a committee appointed by the board of directors. Under the 2011 Plan, the exercise price of all stock options must not be less than the fair market value of a share of common stock on the date of grant. The period over which options vest and become exercisable, as well as the term of the options, is determined by the board of directors or the committee appointed by the board of directors. The options generally vest over 4 years and expire 10 years after the date of the grant.

For the nine months ended September 30, 2015, the Company recorded stock-based compensation expense of \$3.6 million related to stock options.

As of September 30, 2015, there was \$2.4 million of total unrecognized stock-based compensation cost, net of estimated forfeitures, related to stock options. This amount will be amortized on a straight-line basis over the requisite service period related to the stock option grants.

A summary of the status of stock options issued pursuant to the Plans during the nine months ended September 30, 2015 is presented below:

<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Life (years)</u>
Outstanding at beginning of the year	5,603,892	\$ 9.04	
Granted	—	\$ —	
Forfeited	(169,733)	\$ 14.71	
Exercised	(224,855)	\$ 3.83	
Outstanding at end of the period	<u>5,209,304</u>	<u>\$ 9.07</u>	<u>5.2</u>
Exercisable at end of the period	<u>4,886,691</u>	<u>\$ 8.68</u>	<u>5.1</u>
Available for future grants at September 30, 2015	<u>2,252,798</u>		

The intrinsic values of options outstanding, vested and exercised during the nine months ended September 30, 2015 were as follows:

	<u>Number of Options</u>	<u>Intrinsic Value</u>
Outstanding	5,209,304	\$ 9,261,405
Vested	4,886,691	\$ 9,261,376
Exercised	224,855	\$ 1,894,996

During the nine months ended September 30, 2015, employees and former employees of the Company exercised options to purchase a total of 224,855 shares of common stock at exercise prices ranging from \$0.25 to \$12.86 per share. Proceeds from the stock option exercises totaled \$0.9 million.

TANGO, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

Restricted Stock Units

During the nine months ended September 30, 2015, the Company issued 961,305 restricted stock units to certain employees under the provisions of the 2011 Plan, of which 172,000 were performance-based restricted stock units, and 466,098 restricted stock units vested resulting in an equal number of shares of common stock being issued. The grants of restricted stock units made during the nine months ended September 30, 2015 had an aggregate value of \$11.2 million. The value of a restricted stock unit award is determined based on the closing price of the Company's common stock on the date of grant. A restricted stock unit award entitles the holder to receive shares of the Company's common stock as the award vests. The restricted stock units vest over periods that range from three months to three years. The performance-based restricted stock units vest based on achievement of a specified financial metric, with the resulting number of shares earned then subject to further time-based vesting, with 20% vesting on the first anniversary of the grant date of February 19, 2015 and 20% each subsequent quarter until fully vested on the second anniversary of the grant date. As of September 30, 2015, the Company deemed it improbable that the specified financial metric would be achieved in an amount sufficient to earn any portion of the performance-based restricted stock units. As a result, \$0.6 million of previously recorded stock-based compensation related to these performance-based restricted stock units was reversed. Stock-based compensation expense is amortized on a straight-line basis over the vesting period.

For the nine months ended September 30, 2015, the Company recorded stock-based compensation expenses of \$7.7 million, related to restricted stock units.

As of September 30, 2015, there was \$14.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted stock units. This amount will be amortized on a straight-line basis over the requisite service period related to the restricted unit grants.

A summary of the status of restricted stock units issued pursuant to the Plans during the nine months ended September 30, 2015 is presented below:

Restricted Stock Units	Number of Shares	Weighted Average Fair Value
Outstanding at beginning of the year	1,172,505	\$ 17.36
Granted	961,305	\$ 11.66
Forfeited	(250,870)	\$ 13.18
Vested	(466,098)	\$ 17.34
Outstanding at end of the period	<u>1,416,842</u>	<u>\$ 14.28</u>

In accordance with ASC 718, *Share Based Payment* ("ASC 718"), total compensation expense for stock-based compensation awards was \$14.6 million and \$13.8 million for the three and nine months ended September 30, 2014 and 2015, respectively, which is included on the accompanying condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Cost of goods sold	\$ 641	\$ 526	\$ 3,338	\$ 1,990
Sales and marketing expenses	1,275	1,207	4,013	3,875
General and administrative expenses	2,069	1,740	5,204	6,029
Research and development	765	527	2,050	1,904
Total stock-based employee compensation	<u>\$ 4,750</u>	<u>\$ 4,000</u>	<u>\$ 14,605</u>	<u>\$ 13,798</u>

Stock-based compensation expense for equity awards outstanding as of September 30, 2015 will be recognized over the following periods as follows (in thousands):

TANGO, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

Years Ending December 31,

October 1, 2015 to December 31, 2015	\$	4,115
2016		9,014
2017		3,536
2018		603
	\$	<u>17,268</u>

Stock-based compensation costs for stock options are generally based on the fair value calculated from the Black-Scholes valuation model on the date of grant. The Black-Scholes valuation model requires the Company to estimate key assumptions such as expected volatility, expected terms, risk-free interest rates and dividend yields. The Company determined the assumptions in the Black-Scholes valuation model as follows: expected volatility is a combination of the Company's competitors' historical volatility; expected term is calculated using the "simplified" method prescribed in ASC 718 ; and the risk free rate is based on the U.S. Treasury yield on 5 and 7-year instruments in effect at the time of grant. A dividend yield is not used, as the Company has never paid cash dividends and does not currently intend to pay cash dividends. The Company periodically reviews the assumptions and modifies the assumptions accordingly.

As part of the requirements of ASC 718, the Company is required to estimate potential forfeitures of stock option and restricted stock unit grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock-based compensation expense to be recognized in future periods. The fair values of stock option and restricted stock unit grants are amortized as compensation expense on a straight-line basis over the vesting period of the grants. Compensation expense recognized is shown in the operating activities section of the statement of cash flows.

9. Income Taxes

The income tax provision differs from the expected tax provisions computed by applying the U.S. Federal statutory rate to loss before income taxes primarily because the Company has historically maintained a full valuation allowance on its deferred tax assets and to a lesser extent because of the impact of state income taxes. As described in the 2014 Form 10-K, the Company maintains a full valuation allowance in accordance with ASC 740, *Accounting for Income Taxes* , on its net deferred tax assets. Until the Company achieves and sustains an appropriate level of profitability, it plans to maintain a valuation allowance on its net deferred tax assets.

10. Fair Value Measurement

The Company records certain financial assets and liabilities at fair value on a recurring basis. The Company determines fair values based on that price it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly, such as a quoted price for similar assets or liabilities in active markets.

Level 3—Inputs are unobservable and are only used to measure fair value when observable inputs are not available. The inputs reflect the entity's own assumptions and are based on the best information available. This allows for the fair value of an asset or liability to be measured when no active market for that asset or liability exists.

TANGOE, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

The following tables disclose the assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and September 30, 2015 and the basis for that measurement:

(in thousands)	Fair Value Measurement at December 31, 2014			
	Total	Level 1	Level 2	Level 3
Money market	\$ 18,372	\$ 18,372	\$ —	\$ —
Contingent HCL-EMS acquisition consideration	541	—	—	541
Contingent oneTEM acquisition consideration	235	—	—	235
	\$ 19,148	\$ 18,372	\$ —	\$ 776

(in thousands)	Fair Value Measurement at September 30, 2015			
	Total	Level 1	Level 2	Level 3
Money market	\$ 4,386	\$ 4,386	\$ —	\$ —
Contingent oneTEM acquisition consideration	252	—	—	252
	\$ 4,638	\$ 4,386	\$ —	\$ 252

The changes in the fair value of the Level 3 liability for the nine months ended September 30, 2015 are as follows:

(in thousands)	Contingent Acquisition Consideration		
	Nine Months Ended September 30, 2015		
	HCL-EMS	oneTEM	
Balance, Beginning of Period	\$ 541	\$ 235	\$ 776
Payments	\$ (541)	\$ —	\$ —
Imputed interest	—	17	17
Balance, End of Period	\$ —	\$ 252	\$ 793

The Company's investment in overnight money market institutional funds, which amounted to \$18.4 million and \$4.4 million at December 31, 2014 and September 30, 2015, respectively, is included in cash and cash equivalents on the accompanying condensed consolidated balance sheets and is classified as a Level 1 input.

The acquisition of HCL-EMS included a contingent consideration agreement that required additional consideration to be paid by the Company following each of the first and second anniversaries of the HCL-EMS Closing Date, pursuant to an earn-out formula ranging from 7.5% to 15% of specified revenues from specified customers acquired, subject to set-off rights of the Company with respect to indemnities given by HCL-EMS under the HCL-EMS APA. The fair value of the contingent consideration recognized was \$3.4 million which was estimated by applying the income approach. The key assumptions include (a) a discount rate of 10.5% and (b) probability adjusted levels of revenue between approximately \$12.6 million and \$13.9 million. As of September 30, 2015, there were no changes in the recognized amounts from December 31, 2014 except for the final payment of the contingent consideration upon resolution of the outstanding indemnity matter.

The acquisition of oneTEM includes a contingent earn-out cash consideration agreement that requires additional consideration to be paid by the Company following each of the first four anniversaries of the oneTEM Closing Date. Historically, the oneTEM business had generated one-time consulting revenue. Under the earn-out formula, the earn-out consideration is equal to 9% of annual recurring revenue that the business begins to generate from specified customers in the first year and then 9% of year-over-year increases in annual recurring revenue growth from those specified customers during the earn-out periods. The earn-out period begins with the first full month after the oneTEM Closing Date and continues for four consecutive 12-month periods. The contingent earn-out cash consideration is subject to set-off rights of the Company with respect to indemnities given by the former holders of the issued share capital of oneTEM under the oneTEM Purchase Agreement. The fair value of the contingent earn-out cash consideration recognized was \$0.2 million, which was estimated by applying the income approach. The key assumptions include (a) a discount rate of 15% and (b) probability adjusted levels of initial and then increased annual recurring revenue between approximately \$0.2 million

TANGO, INC
Notes to Condensed Consolidated Financial Statements continued (Unaudited)

and \$0.3 million. As of September 30, 2015, there were no changes in the recognized amounts from December 31, 2014, except for the accretion of imputed interest.

The carrying amounts of the Company's other non-cash financial instruments including accounts receivable and accounts payable approximate their fair values due to the relatively short-term nature of these instruments.

11. Supplemental Cash Flow Information:

Information about other cash flow activities during the nine months ended September 30, 2014 and 2015 are as follows:

<u>(in thousands)</u>	<u>Nine Months Ended September 30,</u>	
	<u>2014</u>	<u>2015</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 23	\$ 194
Income tax payments	\$ 379	\$ 883
NON CASH FINANCING ACTIVITIES:		
Software acquired with financing agreement	\$ —	\$ 3,500
Computer, furniture and equipment acquired with capital lease	\$ —	\$ 698

12. Commitments and Contingencies

During the normal course of business, the Company becomes involved in various routine legal proceedings including issues pertaining to patent and trademark infringement, customer disputes, employee matters and acquisition-related post-closing disputes. The Company does not believe that the outcome of these matters will have a material adverse effect on its financial condition.

The Company has entered into non-cancellable operating leases for the rental of office space in various locations that expire between 2016 and 2023. Some of the leases provide for lower payments in the beginning of the term which gradually escalate during the term of the lease. The Company recognizes rent expense on a straight-line basis over the lease term, which gives rise to a deferred rent liability on the balance sheet. The Company also has entered into agreements with third-party hosting facilities, which expire between 2016 and 2017.

The Company is also obligated under several leases covering computer equipment and software, which the Company has classified as capital leases and other obligations. Additionally, the Company has entered into several operating leases for various office equipment items, which expire between 2016 and 2018.

Rent expense, included in general and administrative expense, was approximately \$4.5 million and \$5.0 million for the nine months ended September 30, 2014 and 2015, respectively.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial information included elsewhere in this quarterly report. Some of the information contained in this discussion and analysis or set forth elsewhere in this quarterly report, including information with respect to our plans and strategy for our business and related financing, include forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" and "Forward-Looking Statements" sections of this quarterly report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

Tangoe is a leading global provider of connection lifecycle management, or CLM, software and services to a wide range of global enterprises and service providers. CLM covers the entire spectrum of an enterprise's connection-based assets and services, such as voice and data services, mobile devices and usage, cloud software, infrastructure and services, machine-to-machine connections, enterprise social and information technology connections, and encompasses the entire lifecycle of these assets and services, including planning and sourcing, procurement and provisioning, inventory and usage management, mobile device management, real-time telecommunications expense management, invoice processing and payment, expense allocation and accounting, and asset decommissioning and disposal. Our on-demand Matrix Solution Suite is a suite of software designed to manage IT expenses and to manage and optimize the complex processes and expenses associated with this connection lifecycle management. Our Matrix Solution Suite and related services have historically focused on enterprises' fixed and mobile connections, and related assets, usage, expenses and analytics. We continue to enhance and expand our software and service offerings by developing and implementing additional capabilities, including capabilities designed to manage the entire range of an enterprise's IT expenses, and to turn on, track, manage, secure and support various connections in an enterprise's connection lifecycle, such as cloud software, infrastructure and services, machine-to-machine, enterprise social and information technology connections. We refer to our Matrix Solution Suite and related service offerings as Matrix.

Our solution can provide a significant return on investment by enabling an enterprise to identify and resolve billing errors, to optimize service plans, licenses and contracts based on usage patterns and needs, to manage used and unused connection assets and services, to proactively monitor usage, to conveniently and accurately pay vendors and to prevent bill overages. Our solution allows enterprises to improve the productivity of their employees by automating the provisioning of connection assets and services, and to reduce costs by controlling and allocating connection expenses. It also allows enterprises to enforce regulatory requirements and internal policies governing the use of connection assets and services. Further, our solution allows enterprises to manage their connection assets and services and helps them improve end user productivity.

We designed our business model to sell recurring technology and services leveraging our Matrix Solution Suite. We review three key business metrics to help us monitor the performance of our business model and to identify trends affecting our business. The measures that we believe are the primary indicators of our quarterly and annual performance are as follows:

Adjusted EBITDA. We define Adjusted EBITDA as net income (loss) plus interest expense, income tax provision, depreciation and amortization, amortization of marketing agreement intangible assets, stock-based compensation expense and other expense less amortization of leasehold interest, interest income and other income. Our management uses Adjusted EBITDA to measure our operating performance because it does not include the impact of items not directly resulting from our core business and certain non-cash expenses such as depreciation and amortization and stock-based compensation. We believe that this measure provides us with additional useful information to measure and understand our performance on a consistent basis, particularly with respect to changes in performance from period to period. We use Adjusted EBITDA in the preparation of our annual operating budgets and to measure and evaluate the effectiveness of our business strategies. Adjusted EBITDA is not calculated in accordance with generally accepted accounting principles in the United States of America, or GAAP, and is not a substitute for or superior to financial measures determined in accordance with GAAP. Other companies in our industry may calculate Adjusted EBITDA in a manner differently from us, which reduces its usefulness as a comparative measure. Our Adjusted EBITDA has increased annually for each fiscal year since 2007 and we expect it to continue to increase in our fiscal year ending December 31, 2015.

Recurring technology and services revenue growth. We provide recurring technology-enabled services leveraging both our technology and communications industry experience. We regularly review our recurring revenue growth to measure our success.

We intend to continue to focus our sales and marketing efforts on increasing our recurring technology and services-related customer base, and we expect that our recurring technology and services revenue will increase in absolute dollars and remain consistent as a percentage of total revenue over the next 12 months due to our expectation that we will be able to:

- retain a high percentage of the revenue we currently derive from our existing customers;
- sell additional product and service offerings to our existing customers; and
- add a significant number of new customers.

We believe that we will be able to retain a high percentage of our existing recurring technology and services revenue due to our revenue retention rates, and the current levels of customer usage of our products and services, which we review on a monthly basis to provide an indication of impending increases or decreases in billed revenue for future periods.

We believe that we will be able to sell additional product and service offerings to our existing customers in the next year based on our analysis of revenue on a per-customer basis for the last 12 months, which indicates that our customers on an aggregate basis have generally increased their usage of our solution on a quarterly basis.

We believe that we will be able to add a significant number of new customers over the next 12 months as we continue to expand internationally and increase our share of the domestic market.

Revenue retention rates. In addition, we consider our revenue retention rates. Since we began to fully realize the benefits of our recurring revenue model in 2009, our revenue retention rates have been higher than 90%. We measure revenue retention rates by assessing on a dollar basis the recurring technology and services revenue we retain for the same customer and product set in a given period versus the prior year period. We cannot predict our revenue retention rates in future periods. Our use of a revenue retention rate has limitations as an analytical tool, and you should not consider it in isolation. Other companies in our industry may calculate revenue retention rates differently, which reduces its usefulness as a comparative measure.

We also review a number of other quantitative and qualitative trends in monitoring our performance, including our share of the CLM market, our customer satisfaction rates, our ability to attract, hire and retain a sufficient number of talented employees to staff our growing business and the development and performance of our solutions. Our review of these factors can affect aspects of our business and operations on an on-going basis, including potential acquisition strategies and investment in specific areas of product development or service support.

Certain Trends and Uncertainties

The following represents a summary of certain trends and uncertainties, which could have a significant impact on our financial condition and results of operations. This summary is not intended to be a complete list of potential trends and uncertainties that could impact our business in the long or short term. This summary, however, should be considered along with the factors identified in the “Risk Factors” section of this Quarterly Report on Form 10-Q.

- The CLM market is characterized by rapid technological change and frequent new product and service introductions, including frequent introductions of new technologies and devices. To achieve and maintain market acceptance for our solution, and to generate additional revenue from existing and new customers, we must effectively anticipate these changes and offer software products and services that respond to them in a timely manner. If we fail to develop software products and services that satisfy customer preferences in a timely and cost-effective manner, or if we fail to effectively convert existing customers to these new products and services or add new customers, our ability to renew our agreements with existing customers and our ability to create or increase demand for our solution and generate additional revenue will be harmed.
- We believe that competition will continue to increase. Increased competition could result from existing competitors or new competitors that enter the market because of the potential opportunity. We will continue to closely monitor competitive activity and respond accordingly. Increased competition could have an adverse effect on our financial condition and results of operations.
- We continue to closely monitor current economic conditions, as any decline in the general economic environment that negatively affects the financial condition of our customers could have an adverse effect on our financial condition and results of operations. For example, during the most recent economic downturn, our customer cancellation rate during the first quarter of 2009 increased to a quarterly rate of over three times the average of the prior four quarters, partly as a result of customer bankruptcies. If economic conditions in the United States and other countries decline, we may face greater risks in operating our business.

Acquisitions

On May 31, 2015, we acquired the assets comprising IBM’s Rivermine Telecommunications Expense Management business, a leading provider of telecom expense management solutions. The purchase price was \$22.0 million in cash paid at the closing. The transaction costs were immaterial and were expensed as incurred.

We continue to migrate to our platforms the customers of several of the businesses that we acquired during 2011 and 2012. We generally expect to migrate the Rivermine customers to our Matrix platform following the release of the components of Matrix required for these customers. While, to date, we have successfully migrated a number of the customers acquired in 2011 and 2012, there can be no assurance that we will complete these and the Rivermine customer migrations in a timely manner or at all and the cost of these migrations may be more significant than we have estimated. We may pursue additional acquisitions of, or investments in, businesses, services and technologies that will expand the functionality of our solution, provide access to new markets or customers, or otherwise complement our existing operations.

Sources of Revenue

Recurring technology and services revenue. We derive our recurring technology and services revenue primarily from subscriptions and services related to our Matrix Solution Suite. We recognize revenue for software and related services when all of the following conditions are met: (a) there is persuasive evidence of an arrangement; (b) the service has been provided to the customer; (c) the collection of the contracted fee is probable; and (d) the amount of the fees to be paid by the customer or partner is fixed or determinable. These services include help desk, asset procurement and provisioning, and carrier dispute resolution. The recurring technology and services revenue is recognized ratably over the contract term.

We license our on-demand software and sell related services primarily on a subscription basis under agreements that typically have terms ranging from 24 to 60 months. Our recurring technology and services revenue is driven by the amount of communications spend that we manage and the scope of the products and services that we provide to our customers. Under our fixed line contracts, we typically charge our customers a percentage of managed communications spend that is determined based on the products and services that we provide. Under our mobile contracts, we typically charge our customers fees that are based on the mobile products and services that we provide and the number of devices for which we provide those products and services. We also derive recurring technology and services revenue from payment processing through MxPay, our bill pay solution. As of September 30, 2015, we managed a total of approximately \$34.2 billion in annual communications expense as compared to approximately \$29.2 billion in annual communications expense as of September 30, 2014. Our customers are typically subject to a minimum charge for up to a specified threshold amount of communications spend, transactional

volume or number of mobile devices under management and additional charges to the extent the specified thresholds are exceeded. Any implementation fees associated with recurring technology and services engagements are recognized over the estimated expected life of the customer relationship, which we estimate to be equal to twice the contract life, and we recognize implementation fees ratably over this period. Many of our subscription contracts are non-cancelable, although customers have the right to terminate for cause if we materially fail to perform.

Strategic consulting, software licenses and other revenue. In addition to our subscription fees, revenue is generated to a lesser extent by strategic consulting, software licenses, mobile device activation fees and sales of mobile telecommunication accessories. Strategic consulting consists primarily of fees charged for contract negotiations and bill audits. Contract negotiation fees include both fixed project fees and incentive fees driven by the amount of savings that we are able to generate over the customer's existing communications rates. These fees are recognized when fixed or determinable, usually when the carrier issues an executed proposal. Bill audit fees are driven by the amount of savings that we are able to generate by reviewing current and prior communications invoices against the customer's existing contracts. These fees are recognized when fixed or determinable, usually when the savings have been calculated and documented in our Matrix Solutions Suite.

On occasion, we license our Matrix Solution Suite to our customers on a perpetual basis. If we are able to derive vendor-specific objective evidence on the undelivered elements, the software portion is recognized when the revenue recognition criteria is met; otherwise the contract is recognized ratably over the contract life. Other professional services are recognized as the services are performed. We have an agreement with a carrier whereby we receive an activation fee for procuring a mobile device. The activation revenue is recognized upon confirmation from the carrier that the device has been procured. The revenue related to the sale of mobile telecommunication accessories is recognized upon shipment of the accessories to the customer.

We expect our strategic consulting, software licenses and other revenue to increase in absolute dollars and remain relatively constant as a percentage of total revenue over the next 12 months.

We historically have derived primarily all of our revenue from United States-based customers. We have been building our international sales operations by increasing our direct sales force abroad and expect to continue this expansion. We expect our international revenue to increase in absolute dollars and as a percentage of total revenue over the next 12 months.

Cost of Revenue and Gross Profit

Cost of recurring technology and services revenue. Cost of recurring technology and services revenue consists primarily of costs associated with our data center operations, customer product support centers and client services group. This includes personnel-related costs such as salary, stock-based compensation and other compensation-related costs, subcontractor fees, hosting fees, communications costs and royalties related to third-party software included in our solution when our solution is licensed on a non-perpetual basis.

Cost of strategic consulting, software licenses and other revenue. Cost of strategic consulting, software licenses and other revenue consists primarily of personnel-related costs, including salary, stock-based compensation and other compensation-related costs and subcontractor fees directly related to delivering the service and to a lesser extent, the cost of the mobile telecommunications accessories sold.

As our customer base continues to grow, we expect our cost of revenue to increase in absolute dollars as we expand our data center and customer support operations to support our continued growth. Our cost of revenue could fluctuate as a percentage of revenue on a quarterly basis but remain relatively stable on an annual basis based on the mix of software and services sold and average contractual selling price.

Gross profit. Gross profit as a percentage of revenue is affected by two main factors—the mix of software and services sold and the average contractual selling price. We expect our gross profit in absolute dollars to increase, but that our gross profit as a percentage of revenue will be affected as we integrate the businesses of our recent acquisitions, which have historically operated with lower margins than our business. We believe that over time we will achieve improvements in those margins as we integrate the acquired operations and capture the operating efficiencies of the overall business.

Operating Expense

Operating expense consists of sales and marketing, general and administrative, research and development and depreciation and amortization. Other than for depreciation and amortization expense, personnel-related costs are the most significant component of all of these operating expenses. We expect to continue to hire a significant number of new employees in order to support our overall growth. In any particular period, the timing of additional hires could materially affect our operating results, both in absolute dollars and as a percentage of revenue.

Sales and marketing. Sales and marketing expense consists primarily of personnel-related costs, including salary, stock-based compensation and other compensation-related costs for our sales, marketing and business development employees, the cost of outside marketing programs such as on-line lead generation, promotional events, such as trade shows, user conferences, seminars and webinars, the cost of business development programs, travel-related costs and sales commissions. Sales commission rates are calculated at the time a contract is signed. The sales commission rate is applied to the contract's first year of revenue to calculate sales commission expense. Sales commission expense is accrued and expensed at the time we invoice the customer and is paid to the salesperson either when the invoice is collected or ratably over the next five quarters. Generally, new sales personnel require time to become familiar with our software and services and do not begin to generate sales immediately, which can result in increased sales and marketing expense without any immediate increase in revenue. We expect sales and marketing expense to increase in absolute dollars and as a percentage of revenue in the near term, as we continue to hire sales and marketing personnel in the United States and internationally to expand our solution globally.

General and administrative. General and administrative expense consists of personnel-related costs, including salary, stock-based compensation and other compensation-related costs for finance and accounting, executive, human resources, legal and information technology personnel, rent and facility costs, legal and other professional fees, and other corporate expenses. We are incurring and will continue to incur costs associated with being a public company, including corporate insurance costs as well as certain personnel costs and professional fees, including legal and accounting fees as they relate to financial reporting and maintaining compliance with Section 404 of the Sarbanes-Oxley Act. We expect general and administrative expense to increase in absolute dollars and to decrease as a percentage of revenue over the next several years.

Research and development. Research and development expense primarily consists of personnel-related costs, including salary, stock-based compensation and other compensation-related costs for development personnel, and fees to our outside contract development vendors. We anticipate that our research and development team will continue to focus on expanding our software and services and increasing the functionality of our current offerings. We expect research and development expense to increase in absolute dollars, but remain relatively constant as a percentage of revenue in the near term.

Depreciation and amortization. Depreciation and amortization expense primarily consists of the non-cash write-down of tangible and intangible assets over their expected economic lives. We expect this expense to remain relatively constant in absolute dollars and decrease as a percentage of revenue as we continue to grow and incur capital expenditures to improve our technological infrastructure and acquire assets through potential future acquisitions.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest expense on our short and long-term debt, interest income on our cash and cash equivalents balance. We have historically invested our cash in money market investments. We expect our interest income to vary in each reporting period depending on our average cash balances and interest rates.

Income Tax Provision

Income tax provision consists of federal and state corporate income taxes resulting from our operations in the United States, as well as operations in various foreign jurisdictions. We expect income tax expense to vary each reporting period depending upon taxable income fluctuations and the availability of tax benefits from net loss carryforwards.

As of December 31, 2014, we had U.S. federal net operating loss carryforwards of approximately \$30.5 million, which, if unused, expire from 2022 to 2032. In addition to this amount, we have approximately \$44.7 million of federal income tax loss carryforwards resulting from tax deductions related to stock options awarded to employees, which will be realized only when these deductions reduce income taxes payable. We also have U.S. federal research and development tax credit carryforwards of approximately \$3.8 million, which expire through 2032. We have engaged in several transactions since our inception that have resulted in a change in control as defined by Sections 382 and 383 of the Internal Revenue Code, which limits our ability to utilize these net operating loss and tax credit carryforwards in the future. As of December 31, 2014, \$25.2 million of our net operating loss and tax credit carryforwards were so limited. At December 31, 2014, we had a valuation allowance against the full amount of our deferred tax assets, as management believes it is uncertain that they will be fully realized. If we determine in the future that we will be able to realize all or a portion of our net operating loss or tax credit carryforwards, an adjustment to our recorded valuation allowance would increase net income in the period in which we make such a determination.

Critical Accounting Policies

Our financial statements are prepared in accordance with GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. Our most critical accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2014 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the Securities and Exchange Commission, or the SEC, on March 16, 2015, which we refer to as the 2014 Form 10-K. Since the date of those financial statements, there have been no material changes to our significant accounting policies.

Results of Operations for the Three and Nine Month Periods Ended September 30, 2014 and 2015 (unaudited)

The following table presents selected consolidated statements of operations data for the periods indicated. These consolidated results of operations are not necessarily indicative of the consolidated results of operations that will be achieved in any future period.

(in thousands, except percentages)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	% of revenue	2015	% of revenue	2014	% of revenue	2015	% of revenue
Revenue:								
Recurring technology and services	\$ 48,184	88%	\$ 52,638	93%	\$ 141,252	90%	\$ 151,491	92%
Strategic consulting, software licenses and other	6,297	12%	3,935	7%	16,297	10%	13,029	8%
Total revenue	54,481	100%	56,573	100%	157,549	100%	164,520	100%
Cost of revenue:								
Recurring technology and services	23,035	42%	25,969	46%	66,633	42%	71,184	43%
Strategic consulting, software licenses and other	2,419	4%	2,223	4%	6,760	4%	6,539	4%
Total cost of revenue (1)	25,454	47%	28,192	50%	73,393	47%	77,723	47%
Gross profit	29,027	53%	28,381	50%	84,156	53%	86,797	53%
Operating expense:								
Sales and marketing (1)	9,494	17%	11,164	20%	29,621	19%	32,373	20%
General and administrative (1)	9,918	18%	11,289	20%	28,550	18%	32,102	20%
Research and development (1)	5,767	11%	6,954	12%	16,690	11%	19,894	12%
Depreciation and amortization	2,347	4%	2,558	5%	7,426	5%	7,051	4%
Income (loss) from operations	1,501	3%	(3,584)	-6%	1,869	1%	(4,623)	-3%
Other income (expense), net								
Interest expense	(33)	0%	(75)	0%	(81)	0%	(172)	0%
Interest income	8	0%	2	0%	26	0%	18	0%
Other income (expense)	94	0%	(151)	0%	79	0%	(152)	0%
Income (loss) before income tax provision	1,570	3%	(3,808)	-7%	1,893	1%	(4,929)	-3%
Income tax provision	635	1%	694	1%	1,628	1%	1,857	1%
Net income (loss)	\$ 935	2%	\$ (4,502)	-8%	\$ 265	0%	\$ (6,786)	-4%

(1) Amounts in table above include stock-based compensation expense, as follows:

Cost of revenue	\$ 641	\$ 526	\$ 3,338	\$ 1,990
Sales and marketing	1,275	1,207	4,013	3,875
General and administrative	2,069	1,740	5,204	6,029
Research and development	765	527	2,050	1,904
	\$ 4,750	\$ 4,000	\$ 14,605	\$ 13,798

Revenue

The following table presents our components of revenue for the periods presented:

(unaudited) (in thousands, except percentages)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2015		2014		2015	
	\$	\$	\$	%	\$	\$	\$	%
Recurring technology and services	48,184	52,638	4,454	9%	141,252	151,491	10,239	7%
Strategic consulting, software licenses and other	6,297	3,935	(2,362)	-38%	16,297	13,029	(3,268)	-20%
Total revenue	\$ 54,481	\$ 56,573	\$ 2,092	4%	\$ 157,549	\$ 164,520	\$ 6,971	4%

Our recurring technology and services revenue increased \$4.5 million, or 9%, for the three months ended September 30, 2015 as compared to the same period in 2014. This increase was partly attributable to \$2.5 million in increased revenue from increases in the volume of fixed and mobile communications assets and service offerings being managed or provided through our on-demand communication management platform for existing and new customers, excluding customers acquired in acquisitions since January 1, 2011 except to the extent such acquisition customers purchased new products or services following the applicable acquisition. The increase was driven in part by a 3% increase in our total number of recurring revenue customers to 789 as of September 30, 2015, which amount excludes 362 acquisition customers for total recurring revenue customers of 1,151 as of September 30, 2015, from 765 as of September 30, 2014, which amount excludes 304 acquisition customers for total recurring revenue customers of 1,069 as of September 30, 2014. The \$2.0 million balance of our increase for the three months ended September 30, 2015, as compared to the same period of 2014, was attributable to an increase in revenue from customers acquired in connection with acquisitions since January 1, 2011, to \$15.0 million for the three months ended September 30, 2015 from \$13.0 million for the three months ended September 30, 2014, including for purposes of this calculation revenue from acquisition customers who renewed their contracts with us after the applicable acquisition but excluding revenues from post-acquisition sales of new products and services. This increase was principally attributable to revenues from customers acquired in connection with our acquisition of Rivermine during the nine months ended September 30, 2015. Our recurring technology and services revenue includes contra-revenue related to the amortization of the value of a warrant to purchase common stock issued to IBM as part of a strategic marketing agreement. We recorded \$113,413 and \$153,886 of amortization as a contra-revenue charge during the three months ended September 30, 2014 and 2015, respectively, related to the warrant.

Our strategic consulting, software licenses and other revenue decreased \$2.4 million, or 38%, for the three months ended September 30, 2015 as compared to the same period of 2014, primarily due to decreases of \$1.6 million in consulting revenue, \$0.4 million in mobile telecommunication accessories sales revenue, \$0.2 million in strategic sourcing revenue, \$0.1 million in other revenue and \$0.1 million in software license fee revenue.

Our recurring technology and services revenue increased \$10.2 million, or 7%, for the nine months ended September 30, 2015 as compared to the same period in 2014. This increase was primarily attributable to \$11.5 million in increased revenue from increases in the volume of fixed and mobile communications assets and service offerings being managed or provided through our on-demand communication management platform for existing and new customers, excluding customers acquired in acquisitions since January 1, 2011 except to the extent such acquisition customers purchased new products or services following the applicable acquisition. The increase was driven in part by the increase in our total number of recurring revenue customers between September 30, 2014 and September 30, 2015 described above. This increase in revenue was partially offset by a \$1.3 million decrease for the nine months ended September 30, 2015, as compared to the same period in 2014, in revenue from customers acquired in connection with acquisitions since January 1, 2011, to \$37.5 million for the nine months ended September 30, 2015 from \$38.8 million for the nine months ended September 30, 2014, including for purposes of this calculation revenue from acquisition customers who renewed their contracts with us after the applicable acquisition but excluding revenues from post-acquisition sales of new products and services. This decrease was principally attributable to normal and customary attrition in acquisition customers the effects of which were partially offset by revenues from customers acquired in connection with our acquisition of Rivermine during the nine months ended September 30, 2015. Our recurring technology and services revenue includes contra-revenue related to the amortization of the value of a warrant to purchase common stock issued to IBM as part of a strategic marketing agreement. We recorded \$332,236 and \$463,624 of amortization as a contra-revenue charge during the nine months ended September 30, 2014 and 2015, respectively, related to the warrant.

Our strategic consulting, software licenses and other revenue decreased \$3.3 million, or 20%, for the nine months ended September 30, 2015 as compared to the same period of 2014, primarily due to decreases of \$1.7 million in consulting revenue, \$0.9 million in other revenue, \$0.5 million in mobile telecommunication accessories sales revenue, \$0.1 million in strategic sourcing revenue and \$0.1 million in software license fee revenue.

Costs and Expenses

Cost of Revenue

The following table presents our cost of revenue:

(unaudited) (in thousands, except percentages)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2015		2014		2015	
			Increase (Decrease)				Increase (Decrease)	
	\$	\$	\$	%	\$	\$	\$	%
Recurring technology and services	23,035	25,969	2,934	13%	66,633	71,184	4,551	7%
Strategic consulting, software licenses and other	2,419	2,223	(196)	-8%	6,760	6,539	(221)	-3%
Total cost of revenue	25,454	28,192	2,738	11%	73,393	77,723	4,330	6%
Gross profit	29,027	28,381	(646)	-2%	84,156	86,797	2,641	3%
Gross margin	53%	50%			53%	53%		

Our recurring technology and services cost of revenue increased \$2.9 million for the three months ended September 30, 2015 as compared to the same period in 2014. This increase is primarily due to an increase in personnel-related costs, including an increase in salary and other compensation-related costs of \$1.8 million, all of which was related to the Rivermine acquisition, a \$0.7 million increase in third-party licensing costs which includes an increase of \$1.6 million related to the Rivermine acquisition and \$0.1 million of other third-party licensing costs partly offset by a \$1.0 million decrease in one-time costs associated with invoice payment processing; a \$0.4 million net increase in other infrastructure costs which includes \$0.5 million of additional infrastructure costs related to the Rivermine acquisition and a \$0.2 million increase in payment processing costs. The increases in our recurring technology and services cost of revenue were partly offset by decreases in third-party contractor costs of \$0.2 million as a result of cost efficiencies.

Our strategic consulting, software licenses and other cost of revenue decreased \$0.2 million for the three months ended September 30, 2015 as compared to the same period in 2014, primarily due to a \$0.3 million decrease in the costs associated with our sales of mobile telecommunication accessories revenue, partially offset by a \$0.1 million increase in salary and other compensation-related costs as a result of increased headcount in our strategic consulting business.

As a percentage of revenue, gross profit decreased to 50% for the three months ended September 30, 2015 as compared to 53% for the same period in 2014. This decrease in gross margin was primarily related to the Rivermine acquisition, as this business had historically operated with a lower gross margin than ours, and the decrease in strategic consulting, software license and other revenue. The \$0.6 million decrease in gross profit in absolute dollars was primarily a result of \$2.4 million decrease in strategic consulting, software licenses and other revenue.

Our recurring technology and services cost of revenue increased \$4.6 million for the nine months ended September 30, 2015 as compared to the same period in 2014. This increase was primarily due to an increase in personnel-related costs, including an increase in salary and other compensation-related costs of \$3.6 million, with \$2.3 million of this increase related to the Rivermine acquisition; a \$1.2 million net increase in third-party licensing costs, which includes an increase of \$2.2 million related to the Rivermine acquisition, partly offset by a \$1.0 million decrease in one-time costs associated with invoice payment processing; a \$0.7 million increase in payment processing costs and a \$0.4 million net increase in other infrastructure costs, which includes \$0.7 million of additional infrastructure costs related to the Rivermine acquisition partially offset by a \$0.3 million decrease in telecommunications and data center costs. The increases in our recurring technology and services cost of revenue were partly offset by decreases in third-party contractor costs of \$1.2 million as a result of cost efficiencies.

Our strategic consulting, software licenses and other cost of revenue decreased \$0.2 million for the nine months ended September 30, 2015 as compared to the same period in 2014, primarily due to a \$0.4 million decrease in the costs associated with our sales of mobile telecommunication accessories revenue, partially offset by a \$0.2 million increase in salary and other compensation-related costs as a result of increased headcount in our strategic consulting business.

As a percentage of revenue, gross profit was 53% for both respective nine month periods ended September 30, 2015 and 2014. The \$2.6 million increase in gross profit in absolute dollars was primarily a result of increases in recurring technology and services revenue.

Operating Expense

The following table presents our components of operating expense for the periods presented:

(unaudited) (in thousands, except percentages)	Three Months Ended September 30,						Nine Months Ended June 30,					
	2014		2015		Change		2014		2015		Change	
	Amount	% of Revenue	Amount	% of Revenue	\$	%	Amount	% of Revenue	Amount	% of Revenue	\$	%
Sales and marketing	\$ 9,494	17%	\$ 11,164	20%	\$ 1,670	18%	\$ 29,621	19%	\$ 32,373	20%	\$ 2,752	9%
General and administrative	9,918	18%	11,289	20%	1,371	14%	28,550	18%	32,102	20%	3,552	12%
Research and development	5,767	11%	6,954	12%	1,187	21%	16,690	11%	19,894	12%	3,204	19%
Depreciation and amortization	2,347	4%	2,558	5%	211	9%	7,426	5%	7,051	4%	(375)	-5%
Total operating expense	\$ 27,526	51%	\$ 31,965	57%	\$ 4,439	16%	\$ 82,287	52%	\$ 91,420	56%	\$ 9,133	11%

Sales and marketing expense. Our sales and marketing expense increased \$1.7 million for the three months ended September 30, 2015 as compared to the same period of 2014, as a result of increases in personnel-related costs, including salary and other compensation-related costs, of \$1.3 million, including increased employee compensation and benefits of \$1.2 million partially offset by a \$0.1 million decrease in stock-based compensation expense. The increase in employee compensation and benefits was a result of our increased number of global direct and indirect sales force employees to accommodate growth in sales opportunities, which includes a \$0.4 million increase related to the Rivermine acquisition. Our sales and marketing expense also increased as a result of a \$0.2 million increase in outside marketing expense for the three months ended September 30, 2015 as compared to the same period of 2014, primarily as result of increases in lead generation activities for new and existing geographies and customers.

Our sales and marketing expense increased \$2.8 million for the nine months ended September 30, 2015 as compared to the same period of 2014, primarily as a result of increases in personnel-related costs, including salary and other compensation-related costs, of \$1.9 million as a result of our increased number of global direct and indirect sales force employees to accommodate growth in sales opportunities, which includes a \$0.5 million increase related to the Rivermine acquisition. Our sales and marketing expense also increased as a result of a \$0.7 million increase in outside marketing expense for the nine months ended September 30, 2015 as compared to the same period of 2014, primarily as result of increases in lead generation activities for new and existing geographies and customers, and a \$0.1 million increase in travel and other sales and marketing related expenses.

General and administrative expense. Our general and administrative expenses increased \$1.4 million for the three months ended September 30, 2015 as compared to the same period of 2014, primarily as a result of increases of \$0.4 million in facility and overhead costs attributable to the rent and overhead costs associated with additional facilities, \$0.4 million in technology data center co-location costs, \$0.4 million in professional fees including legal and accounting fees and \$0.2 million in other general and administrative costs related to increases in foreign currency translation costs, corporate insurance and office expenses.

Our general and administrative expenses increased \$3.6 million for the nine months ended September 30, 2015 as compared to the same period of 2014, partially as a result of increases in personnel-related costs, including salary and other compensation-related costs, of \$1.4 million, including increased stock-based compensation expenses of \$0.8 million, employee compensation and benefits of \$0.5 million and third-party consulting costs of \$0.1 million. Our general and administrative expense also increased as a result of increases in technology data center co-location costs of \$0.8 million; facility and overhead costs of \$0.6 million; other general and administrative costs of \$0.5 million related to increases in foreign currency translation costs, corporate insurance and office expenses; and professional fees including legal and accounting fees of \$0.3 million.

Research and development expense. Our research and development expenses increased \$1.2 million for the three months ended September 30, 2015 as compared to the same period of 2014, as a result of increases in personnel-related costs, including salary and other compensation-related costs, of \$1.2 million, which includes \$0.7 million related to the Rivermine acquisition. The \$0.5 million non-Rivermine-related increase was primarily due to increased headcount as a result of our initiative to enhance the functionality of our current products, continue development of our Matrix Solution Suite and improve our ability to scale for increased demand.

Our research and development expenses increased \$3.2 million for the nine months ended September 30, 2015 as compared to the same period of 2014, primarily as a result of increases in personnel-related costs, including salary and other compensation-related costs, of \$3.1 million, including increases related to employee compensation and benefits of \$3.0 million, which includes \$0.9 million related to the Rivermine acquisition, primarily arising from increased headcount as a result of our initiative to enhance the functionality of our current products, continue development of our Matrix Solution Suite and improve our ability to scale for increased demand. Our research and development also increased as a result of a \$0.1 million increase in travel-related costs as a result of the increased headcount and a \$0.1 million increase in third-party contractor costs as a result of the Matrix Solutions Suite initiative.

Depreciation and amortization expense . Our depreciation and amortization expense increased \$0.2 million for the three months ended September 30, 2015 as compared to the same period of 2014, due to a \$0.2 million increase in depreciation expense primarily due to an increase in capital expenditures to support our overall growth.

Our depreciation and amortization expense decreased \$0.4 million for the nine months ended September 30, 2015 as compared to the same period of 2014, due to a decrease in amortization expense of \$0.8 million partially offset by a \$0.4 million increase in depreciation expense. The decrease in amortization expense was primarily due to an acquired identifiable intangible asset becoming fully amortized during the second quarter of 2014. The increase in depreciation expense was primarily due to an increase in capital expenditures to support our overall growth.

Other Income (Expense), Net

The following table presents our components of other income (expense), net for the periods presented:

(unaudited) (in thousands)	Three Months Ended September 30,		Change \$	Nine Months Ended September 30,		Change \$
	2014	2015		2014	2015	
Interest expense	\$ (33)	\$ (75)	\$ (42)	\$ (81)	\$ (172)	(91)
Interest income	8	2	(6)	26	18	(8)
Other income (expense)	94	(151)	(245)	79	(152)	(231)

Interest expense . Interest expense increased to \$75,000 for the three months ended September 30, 2015 from \$33,000 for the three months ended September 30, 2014 primarily as a result of higher average debt balances in the three-month period ended September 30, 2015 .

Interest expense increased to \$0.2 million for the nine months ended September 30, 2015 from \$0.1 million for the nine months ended September 30, 2014 primarily as a result of higher average debt balances in the nine-month period ended September 30, 2015 .

Interest income . Interest income was comparable for the respective three and nine-month periods ended September 30, 2015 and 2014.

Other income (expense). Other income for the three and nine months ended September 30, 2014 primarily consisted of economic growth incentive funds received by one of our foreign entities. Other expense for the three and nine months ended September 30, 2015 primarily consisted of acquisition-related purchase price adjustments.

Income Tax Provision

Our income tax provision increased \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2015 as compared to the same periods in 2014 primarily as a result of higher state income tax expense and higher income tax expense related to taxation in foreign jurisdictions.

Liquidity and Capital Resources

Sources of Liquidity

Since our inception, we have funded our operations primarily from cash from operations, private placements of preferred stock, subordinated notes, term loans, revolving credit facilities and public offerings of equity. As of September 30, 2015, we had cash and cash equivalents of \$36.6 million and accounts receivable of \$60.7 million. As of September 30, 2015, we had amounts due under various debts and credit facilities of \$5.0 million, which consisted of deferred consideration for the oneTEM acquisition and capital lease and other financing obligations.

We believe that our existing cash and cash equivalents and our cash flow from operating activities will be sufficient to meet our anticipated cash needs for at least the next twelve months. To the extent our cash and cash equivalents and cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more acquisitions of, or investments in, businesses, services or technologies. If additional funding is required, we may not be able to obtain bank credit arrangements or to effect an equity or debt financing on terms acceptable to us or at all.

The following table sets forth our cash and cash equivalents and the major sources and uses of cash for each of the periods set forth below:

(in thousands)	As of	
	December 31, 2014	September 30, 2015
Cash and cash equivalents	\$ 51,279	\$ 36,559

(in thousands)	Nine Months Ended September 30,	
	2014	2015
Net cash provided by operating activities	\$ 12,204	\$ 13,121
Net cash used in investing activities	(3,580)	(25,345)
Net cash used in financing activities	(2,584)	(2,115)
Effect of exchange rate on cash	(304)	(381)
Net increase (decrease) in cash and cash equivalents	\$ 5,736	\$ (14,720)

Cash Flows from Operating Activities

Operating activities provided \$13.1 million of net cash during the nine months ended September 30, 2015. We incurred a net loss of \$6.8 million for the nine months ended September 30, 2015 that was principally offset by non-cash charges of stock-based compensation of \$13.8 million, depreciation and amortization of \$7.1 million and other non-cash charges of \$1.5 million, which includes changes in deferred income taxes, allowance for doubtful accounts, amortization of marketing agreement intangible asset and the amortization of a leasehold interest liability. Cash provided by operating activities was also adversely impacted by a \$4.8 million increase in accounts receivable, a \$1.1 million increase in prepaid expenses and other current assets and a \$1.0 million decrease in deferred revenue and was positively impacted by a \$4.4 million increase in accounts payable and accrued expenses.

Operating activities provided \$12.2 million of net cash during the nine months ended September 30, 2014, which resulted from our net income of \$0.3 million for the nine months ended September 30, 2014 principally supplemented by non-cash charges of stock based-compensation of \$14.6 million, depreciation and amortization of \$7.4 million and an increase in deferred taxes of \$0.7 million. Cash provided by operating activities was adversely impacted by a \$9.2 million increase in accounts receivable, a \$1.6 million increase in prepaid expenses and other assets.

Cash Flows from Investing Activities

Cash used in investing activities totaled \$25.3 million during the nine months ended September 30, 2015 and consisted of \$22.0 million paid in connection with the IBM Rivermine acquisition, \$0.5 million related to the HCL acquisition and capital expenditures of \$2.8 million related to the purchase of computer equipment and software.

Cash used in investing activities totaled \$3.6 million during the nine months ended September 30, 2014 and consisted of capital expenditures of \$2.7 million primarily related to the purchase of computer equipment and software and a \$0.9 million payment of deferred cash consideration in connection with the HCL and oneTEM acquisitions.

Cash Flows from Financing Activities

Cash flows used in financing activities totaled \$2.1 million during the nine months ended September 30, 2015, primarily consisting of \$2.0 million of cash used to repurchase our common stock and net repayment of debt of \$1.0 million partially offset by \$0.9 million of proceeds from the exercise of stock options and stock warrants.

Cash used in financing activities totaled \$2.6 million during the nine months ended September 30, 2014 primarily consisting of \$4.0 million of cash used to repurchase our common stock, partially offset by \$0.9 million of proceeds from the exercise of stock options and net borrowings of debt of \$0.4 million.

Contractual Obligations

The following table summarizes our material contractual obligations at September 30, 2015 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

(dollars in thousands)	Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years
Operating lease obligations	\$ 17,680	\$ 7,043	\$ 9,387	\$ 1,250
Capital lease and other obligations	5,059	2,421	2,638	—
Interest on capital lease obligations	272	169	103	—
oneTEM deferred purchase price	252	167	85	—
	<u>\$ 23,263</u>	<u>\$ 9,800</u>	<u>\$ 12,213</u>	<u>\$ 1,250</u>

- Operating lease obligations include minimum lease obligations with remaining terms in excess of one year primarily related to office space as well as certain equipment.
- Capital lease and other obligations include minimum lease obligations with remaining terms in excess of one year related to computer hardware and software.
- oneTEM contingent consideration consists of contingent earn-out cash consideration payable on April 18 in each of 2016 and 2017.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities, nor do we have any interest in entities referred to as variable interest entities.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 3 to our financial statements included in the 2014 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates as well as, to a lesser extent, inflation. We may also face exchange rate risk in the future, as we expand our business internationally.

Interest Rate Risk

At September 30, 2015, we had unrestricted cash and cash equivalents totaling \$36.6 million. These amounts were held for working capital purposes and were invested primarily in deposits and money market funds. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Foreign Exchange Risk

We sell our solution worldwide. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Since our sales are currently denominated in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets and our accounts receivable more difficult to collect. We do not currently hedge our exposure to foreign currency exchange rate fluctuations and we believe that we do not have any material exposure to changes in foreign currency exchange rates. We may, however, hedge such exposure to foreign currency exchange rate fluctuations in the future.

Inflation Risk

Inflation and changing prices have not had a material effect on our business, and we do not expect that they will materially affect our business in the foreseeable future. However, the impact of inflation on replacement costs of equipment, cost of revenue and operating expenses, especially employee compensation costs, may not be readily recoverable in the pricing of our offerings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, our management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial statements.

Item 1A. Risk Factors

Risks Related to Our Business and Our Industry

We have had a history of losses since our incorporation in February 2000.

We were incorporated in February 2000. While we had net income of \$3.0 million in 2012, \$5.0 million in 2013 and \$2.9 million in 2014, we incurred net losses for every fiscal year prior to 2012 and for the nine months ended September 30, 2015. Although we were profitable for 2012, 2013 and 2014, we cannot predict if we will be able to achieve or maintain profitability in the future. We expect to continue making significant future expenditures to develop and expand our business. As a result of these increased expenditures, we will have to generate and sustain substantially increased revenue to achieve and maintain profitability, which we may be unable to do. We may also encounter unforeseen difficulties, complications, product delays and other unknown factors that require additional expenditures. In addition, the percentage growth rates we achieved in prior periods may not be sustainable and we may not be able to increase our revenue sufficiently in absolute dollars to achieve or maintain profitability and we may incur significant losses for the foreseeable future.

If the market for connection lifecycle management services does not grow as we expect, our business will be harmed.

The market for connection lifecycle management, or CLM, services is developing, and it is not certain whether these services will achieve market acceptance and sustain high demand. Some businesses have invested substantial personnel and financial resources into developing internal solutions for CLM, so they may not perceive the benefit of our external solution. If businesses do not perceive the benefits of outsourced CLM services, the CLM market may not continue to develop or may develop more slowly than we expect, either of which would reduce our revenue and adversely affect our ability to maintain profitability.

Our quarterly operating results may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of research analysts or investors, which could cause our stock price to decline.

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock could decline substantially. Fluctuations in our quarterly operating results or guidance may be due to a number of factors, including, but not limited to:

- our ability to attract new customers, obtain renewals from existing customers and increase sales to existing customers;
- the purchasing and budgeting cycles of our customers;
- changes in our pricing policies or those of our competitors;
- the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;
- service outages or security breaches;
- the timing and success of new service introductions and upgrades by us or our competitors;
- the timing and success of implementations for new customers of, and conversions of existing customers to, our invoice and payment processing software and service solution;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- the timing of collection of payments from channel partners;
- the financial condition of our customers; and
- general economic, industry and market conditions.

Because we collect and recognize revenue over the terms of our customer agreements, the lack of customer renewals or new customer agreements may not be immediately reflected in our operating results.

We collect and recognize revenue from our customers over the terms of their customer agreements with us. As a result, the aggregate effect of a decline in new or renewed customer agreements in any one quarter would not be fully recognized in our revenue for that quarter and would negatively affect our revenue in future quarters. Consequently, the aggregate effect of significant downturns in sales of our solution would not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers is generally collected and recognized over the applicable contract term.

If we are unable to retain our existing customers, our revenue and results of operations would grow more slowly than expected or decline and results of operations would be impaired.

We sell our on-demand software products and related services pursuant to agreements that are generally two to five years in duration, and have in some cases acquired businesses with customer contracts with shorter terms. Our customers have no obligation to renew their agreements after their terms expire and some of our customers may terminate their agreements for convenience. These agreements may not be maintained or renewed on the same or on more profitable terms. As a result, our ability to both maintain and grow our revenue depends in part on customer renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our software products, the prices of our software products, the prices of products and services offered by our competitors or reductions in our customers' spending levels. In addition, customers that are acquired by companies using competing service offerings may be required to begin using those competing service offerings, rather than renew their arrangements with us. If our customers do not renew their agreements for our software products, renew on less favorable terms, or do not purchase additional functionality, our revenue may grow more slowly than expected or decline.

We face intense competition, and our failure to compete successfully would make it difficult for us to add and retain customers and would impede the growth of our business.

The CLM market is highly fragmented, competitive and rapidly evolving. We compete with large multi-national communications providers, technology services companies, large independent software vendors, other independent technology and outsourced service providers selling telecommunications expense management and/or mobile device management solutions as well as with solutions developed internally by enterprises seeking to manage their communications expenses and assets. We compete with other technology and outsourced service providers primarily on the basis of customer references, ability to deliver, breadth of solution and pricing. We and other technology and outsourced service providers compete with internally developed CLM solutions primarily on the basis of the relative cost of implementing a third-party solution as compared to inefficiencies or lack of functionality in internally developed CLM solutions.

The intensity of competition in the CLM market has resulted in pricing pressure as the market has developed. We expect the intensity of competition to increase in the future as existing competitors develop their capabilities and as new companies, which could include mobile technology and solution providers and one or more large independent software vendors, enter our market. Some of these competitors may offer telecommunications expense management and/or mobile device management solutions as part of a broad outsource offering for mobile communications services. Increased competition could result in additional pricing pressure, reduced sales, shorter term lengths for customer contracts, lower margins or the failure of our solution to achieve or maintain broad market acceptance. If we are unable to compete effectively, it will be difficult for us to maintain our pricing rates and add and retain customers, and our business, financial condition and results of operations will be harmed.

Some of our actual and potential competitors may enjoy competitive advantages over us, such as greater name recognition, longer operating histories, more varied services and larger marketing budgets, as well as greater financial, technical and other resources. As a result, our competitors may be able to respond more quickly than we can to new or changing opportunities, technologies, standards or customer requirements or devote greater resources to the promotion and sale of their products and services than we can.

Industry consolidation may result in increased competition.

The CLM market is highly fragmented, and we believe that it is likely that some of our existing competitors will consolidate or will be acquired. Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to offer a more comprehensive solution than they individually had offered. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships, such as with Vodafone's acquisitions of TnT Expense Management and Quickcomm in October 2010, Dimension Data's acquisition of Xigo in December 2012 and the merger of Veramark, Movero and the Pinnacle business of Paetec to form Calero in December 2013. We expect these trends to continue as companies attempt to strengthen or maintain their market positions. The companies resulting from such combinations may create more compelling service offerings and may offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete

effectively, including on the basis of price, sales and marketing programs, technology or service functionality. Any of the competitive pressures described above could result in a substantial loss of customers or a reduction in our revenue.

Invoice and payment processing revenue is subject to risks that could limit this source of revenue.

A portion of our revenue is derived from our invoice and payment processing software and service solution. The processes involved in invoice and payment processing are complex and involve third parties, and if these third parties change their policies or practices, these changes could adversely affect our ability to generate revenues from this solution. In addition, where we bundle invoice and payment processing software and services with other software and services, the amount of invoice and payment processing revenue that we generate could affect the market's view of the overall pricing of our bundle of software and services.

We are currently migrating to our platforms the customers of several businesses that we recently acquired and we may in the future expand by acquiring or investing in other businesses, which may divert our management's attention and consume resources that are necessary to sustain our business.

We are currently migrating the customers of several businesses that we acquired during 2011, 2012 and 2015. While to date we have successfully migrated a number of the customers from the businesses we acquired in 2011 and 2012, there can be no assurance that we will complete the migration of these customers or the customers from our Rivermine acquisition in a timely manner or at all and the cost of such migration may be more significant than we have estimated. Our business strategy includes the potential future acquisition of, or investment in, complementary businesses, services or technologies. These acquisitions, investments or new business relationships may result in unforeseen difficulties and expenditures. We may encounter difficulties assimilating or integrating the businesses, technologies, products, services, personnel or operations of companies we have acquired or companies that we may in the future acquire. These difficulties may arise if the key personnel of the acquired company choose not to work for us, the company's technology or services do not easily integrate with ours or we have difficulty retaining the acquired company's customers due to changes in its management or for other reasons. These acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities. In addition, any future acquisition may require us to:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities; or
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

If any of these risks materializes, our business and operating results would be harmed.

Our sales cycles can be long, unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.

Our sales cycle, which is the time between initial contact with a potential customer and the ultimate sale, is often lengthy and unpredictable. Some of our potential customers already have partial CLM solutions in place under fixed-term contracts, which limits their ability to commit to purchase our solution in a timely fashion. In addition, our potential customers typically undertake a significant evaluation process that can last six to nine months or more, and which requires us to expend substantial time, effort and money educating them about the capabilities of our offerings and the potential cost savings they can bring to an organization. Furthermore, the purchase of our solution typically also requires coordination and agreement across many departments within a potential customer's organization, which further contributes to our lengthy sales cycle. As a result, we have limited ability to forecast the timing and size of specific sales. Any delay in completing, or failure to complete, sales in a particular quarter or year could harm our business and could cause our operating results to vary significantly.

If a communications carrier prohibits customer disclosure of communications billing and usage data to us, the value of our solution to customers of that carrier would be impaired, which may limit our ability to compete for their business.

Certain of the software functionality and services we offer depend on our ability to access a customer's communications billing and usage data. For example, our ability to offer outsourced or automated communications bill auditing, billing dispute resolution, bill payment, cost allocation and expense optimization depends on our ability to access this data. If a communications carrier were to prohibit its customers from disclosing this information to us, those enterprises would only be able to use these billing-related aspects of our solution on a self-serve basis, which would impair the value of our solution to those enterprises. This in turn could limit our ability to compete with the internally developed CLM solutions of those enterprises, require us to incur additional expenses to license access to that billing and usage data from the communications carrier, if such a license is made available to us at all, or put us at a competitive disadvantage against any third-party CLM service provider that licenses access to that data.

Our long-term success depends, in part, on our ability to expand the sales of our solution to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

We are currently expanding our international sales and operations, including particularly in the United Kingdom, the Netherlands, Germany, other parts of Europe, Canada, India, China, Australia, Singapore and Latin America. This international expansion will subject us to new risks that we have not faced in the United States and the countries in which we currently conduct business. These risks include:

- continued geographic localization of our software products, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international implementations and operations;
- challenges in integrating our software with multiple country-specific billing or communications support systems for international customers;
- challenges in providing procurement, help desk and fulfillment capabilities for our international customers;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- increased financial accounting and reporting burdens and complexities;
- potentially slower adoption rates of CLM services internationally;
- political, social and economic instability abroad, terrorist attacks and security concerns in general; and

- reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Further expansion into international markets could require us to comply with additional billing, invoicing, communications, data privacy and similar regulations, which could make it costly or difficult to operate in these markets.

Many international regulatory agencies have adopted regulations related to where and how communications bills may be sent and how the data on such bills must be handled and protected. For instance, certain countries, such as Germany, restrict communications bills from being sent outside of the country, either physically or electronically, and certain countries, such as Brazil, Germany, Italy and Spain, require that certain information be encrypted or redacted before bills may be transmitted electronically. These regulations vary from jurisdiction to jurisdiction and international expansion of our business could subject us to additional similar regulations. Failure to comply with these regulations could result in significant monetary penalties and compliance with these regulations could require expenditure of significant financial and administrative resources.

In addition, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Our failure to comply with applicable privacy laws and regulations or any security breakdown that results in the unauthorized release of personally identifiable information or other customer data could result in fines or proceedings by governmental agencies or private individuals, which could harm our results of operations.

If we fail to effectively manage and develop our strategic relationships with our channel partners, or if those third parties choose not to market and sell our solution, our operating results would suffer.

The successful implementation of our strategic goals is dependent in part on strategic relationships with our channel partners to offer our solution to a larger customer base than we can reach through our current direct sales and marketing efforts. Some of our strategic relationships are relatively new and, therefore, it is uncertain whether these third parties will be able to market and sell our solution successfully or provide the volume and quality of customers that we currently expect.

Our success depends in part on the ultimate success of our channel partners and their ability to market and sell our solution. Some of these third parties have previously entered, and may in the future enter, into strategic relationships with our competitors. Further, many of our channel partners have multiple strategic relationships and they may not regard us as significant to their businesses. Our channel partners may terminate their respective relationships with us, pursue other partnerships or relationships, or attempt to develop or acquire products or services that compete with our solution. Our channel partners also may interfere with our ability to enter into other desirable strategic relationships.

If we are unable to manage and develop our strategic relationships, our potential customer base may grow more slowly than we anticipate and we may have to devote substantially more resources to the distribution, sales and marketing of our solution, which would increase our costs and decrease our earnings.

If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

We increased our number of full-time employees from 541 at December 31, 2010, to 1,004 at December 31, 2011, to 1,383 at December 31, 2012, to 2,059 at December 31, 2013 and to 2,339 at December 31, 2014, and our total revenue from \$68.5 million in 2010, to \$104.9 million in 2011, to \$154.5 million in 2012, to \$188.9 million in 2013 and to \$212.5 million in 2014. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, customer base, headcount and operations both domestically and internationally. Growing and managing a global organization and a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively.

The loss of key personnel or an inability to attract and retain additional personnel may impair our ability to grow our business.

We are highly dependent upon the continued service and performance of our senior management team and key technical and sales personnel, including our founder, President and Chief Executive Officer, and none of these individuals is party to an employment agreement with us. The replacement of these individuals likely would involve expenditure of significant time and financial resources, and their loss might significantly delay or prevent the achievement of our business objectives.

We plan to continue to expand our work force both domestically and internationally to increase our customer base and revenue. We face intense competition for qualified individuals from numerous technology, software and communications companies. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of personnel to support our growth. New hires may require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. If our recruiting, training and retention efforts are not successful or do not generate a corresponding increase in revenue, our business will be harmed.

Our software manages and interfaces with our customers' mission-critical networks and systems. Disruptions in the functioning of these networks and systems caused by our software could subject us to substantial liability and damage our reputation.

We assist our customers in the management of their mission-critical communications networks and systems and our software directly interfaces with these networks and systems as well as with enterprise resource planning and other enterprise software and systems. Failures of software could result in significant interruptions in our customers' communications capabilities and enterprise operations. For example, unknown defects in our mobile device management software, or unknown incompatibilities of this software with our customers' mobile devices, could result in losses of functionality of these devices. If such interruptions occur, we may not be able to remedy them in a timely fashion and our customers' ability to operate their enterprises could be severely compromised. Such interruptions could cause our customers to lose revenue and could damage their reputations. In turn, these disruptions could subject us to substantial liabilities and result in irreparable damage to our reputation, delays in payments from our customers or refusals by our customers to make such payments, any of which could harm our business, financial condition or results of operations.

The emergence of one or more widely used, standardized communications devices or billing or operational support systems could limit the value and operability of our solution and our ability to compete with the manufacturers of such devices or the carriers using such systems in providing CLM services.

Our solution derives its value in significant part from our software's ability to interface with and support the interoperation of diverse communications devices, billing systems and operational support systems. The emergence of a single or a small number of widely used communications devices, billing systems or operational support systems using consolidated, consistent sets of standardized interfaces for the interaction between communications service providers and their enterprise customers could significantly reduce the value of our solution to our customers and potential customers. Furthermore, any such communications device, billing system or operational support system could make use of proprietary software or technology standards that our software might not be able to support. In addition, the manufacturer of such device, or the carrier using such billing system or operational support system, might actively seek to limit the interoperability of our software products with our software products for competitive or other reasons. The resulting lack of compatibility of our software products would put us at a significant competitive disadvantage, or entirely prevent us from competing, in that segment of the potential CLM market if such manufacturer or carrier, or its authorized licensees, were to develop one or more CLM solutions competitive with our solution.

A continued proliferation and diversification of communications technologies or devices could increase the costs of providing our software products or limit our ability to provide our software products to potential customers.

Our ability to provide our software products is dependent on the technological compatibility of our systems with the communications infrastructures and devices of our customers and their communications service providers. The development and introduction of new communications technologies and devices requires us to expend significant personnel and financial resources to develop and maintain interoperability of our software products with these technologies and devices. The communications industry has recently been characterized by rapid change and diversification in both product and service offerings. Continued proliferation of communications products and services could significantly increase our research and development costs and increase the lag time between the initial release of new technologies and products and our ability to provide support for them in our software products, which would limit the potential market of customers that we have the ability to serve.

We may not successfully develop or introduce new and enhanced software and service offerings, and as a result we may lose existing customers or fail to attract new customers and our revenue may suffer.

Our future financial performance and revenue growth depend upon the successful development, introduction and customer acceptance of new and enhanced versions of our software and service offerings, including enhancements to Matrix to address additional connection types such as cloud software, infrastructure and services, machine-to-machine, enterprise social and information technology connections. We are continually seeking to develop and acquire enhancements to our solution as well as new offerings to supplement our existing solution and we are subject to all of the risks inherent in the development and integration of new technologies, including unanticipated performance, stability, and compatibility problems, any of which could result in material delays in introduction and acceptance, significantly increased costs, adverse publicity and loss of sales. If we are unable to deliver new solutions or upgrades or other enhancements to our existing solution on a timely and cost-effective basis, our business will be harmed.

We may not be able to respond to rapid technological changes with new software products and services, which could harm our sales and profitability.

The CLM market is characterized by rapid technological change and frequent new product and service introductions, driven in part by frequent introductions of new technologies and devices in the communications industry, frequent changes in, and resulting inconsistencies between, the billing platforms utilized by major communications carriers and the changing demands of customers regarding the means of delivery of CLM solutions. To achieve and maintain market acceptance for our solution, we must effectively anticipate these changes and offer software products and services that respond to them in a timely manner. Customers may require features and capabilities that our current solution does not have. If we fail to develop software products and services that satisfy customer preferences in a timely and cost-effective manner, our ability to renew our agreements with existing customers and our ability to create or increase demand for our solution will be harmed.

Actual or perceived breaches of our security measures, or governmental required disclosure of customer information could diminish demand for our solution and subject us to substantial liability.

In the processing of communications transactions, we receive, transmit and store a large volume of sensitive customer information, including call records, billing records, contractual terms, and financial and payment information, including credit card information, and we have entered into contractual obligations to maintain the confidentiality of certain of this information. Any person who circumvents our security measures could steal proprietary or confidential customer information or cause interruptions in our operations and any such lapse in security could expose us to litigation, substantial contractual liabilities and loss of customers or damage to our reputation or could otherwise harm our business. We incur significant costs to protect against security breaches and may incur significant additional costs to alleviate problems caused by any breaches. In addition, if we are required to disclose any of this sensitive customer information to governmental authorities, that disclosure could expose us to a risk of losing customers or could otherwise harm our business.

If customers believe that we may be subject to requirements to disclose sensitive customer information to governmental authorities, or that our systems and software products do not provide adequate security for the storage of confidential information or its transmission over the Internet or corporate extranets, or are otherwise inadequate for Internet or extranet use, our business will be harmed. Customers' concerns about security could deter them from using the Internet to conduct transactions that involve confidential information, including transactions of the types included in our solution, so our failure to prevent security breaches, or the occurrence of well-publicized security breaches affecting the Internet in general, could significantly harm our business and financial results.

If we are unable to protect our intellectual property rights and other proprietary information, it will reduce our ability to compete for business.

If we are unable to protect our intellectual property rights and other proprietary information, our competitors could use our intellectual property to market software products similar to our own, which could decrease demand for our solution. We rely on a combination of patent, copyright, trademark, service mark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our intellectual property rights and proprietary information, all of which provide only limited protection. We have twenty-two issued patents and twenty-five patent applications pending. We cannot assure you that our issued patents, any patents that may issue from our patent applications pending or any other intellectual property rights that we currently hold or may in the future acquire will prove to be enforceable in actions against alleged infringers or otherwise provide sufficient protection of any competitive advantages that we may have. In addition, any action that we take to enforce our patents or other intellectual property rights may be costly, time-consuming and a significant diversion of management attention from the continued growth and development of our business.

We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive with ours or infringe our intellectual property. Enforcement of our intellectual property rights also depends on our successful legal actions against these infringers, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, copyright, trademark, service mark and trade secret protection may not be available in every country in which we offer our software products.

Assertions by a third party that our software products or technology infringes its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses.

There is frequent litigation in the communications and technology industries based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition and become increasingly visible as a publicly traded company, the possibility of intellectual property rights claims against us may grow. These claims, whether or not successful, could:

- divert management's attention;
- result in costly and time-consuming litigation;
- require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all; or
- require us to redesign our software products to avoid infringement.

As a result, any third-party intellectual property claims against us could increase our expenses and impair our business.

In addition, although we have licensed proprietary technology, we cannot be certain that the owners' rights in such technology will not be challenged, invalidated or circumvented. Furthermore, many of our customer agreements require us to indemnify our customers for certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, may deter future customers from purchasing our software products or could expose us to litigation for these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

We outsource certain of our research and development activities to third-party contractors, and a loss of or deterioration in these relationships could adversely affect our ability to introduce new software products or enhancements in a timely fashion.

Certain of our research and development activities are carried out by third-party contractors, located both in the United States and abroad. The loss of or deterioration in any of these relationships for any reason could require us to establish alternative relationships or to complete these research and development activities using our internal research and development staff, either of which could result in increased costs to us and impair our ability to introduce new software products or enhancements in a timely fashion. Our use of such third-party contractors also increases the risk that our intellectual property could be misappropriated or otherwise disclosed to our competitors, either of which could harm our competitiveness and harm our future revenue.

Defects or errors in our software products could harm our reputation, impair our ability to sell our products and result in significant costs to us.

Our software products are highly complex and may contain undetected defects or errors, including defects and errors arising from the work of our outsourced development teams, that may result in product failures or otherwise cause our software products to fail to perform in accordance with customer expectations. Because our customers use our software products for important aspects of their businesses, any defects or errors in, or other performance problems with, our software products could hurt our reputation and may damage our customers' businesses. If that occurs, we could lose future sales or our existing customers could elect to not renew their customer agreements with us. Product performance problems could result in loss of market share, failure to achieve market acceptance and the diversion of development resources from software enhancements. If our software products fail to perform or contain a technical defect, a customer might assert a claim against us for damages. We may not have contractual limitations on damages claims that could be asserted against us. Whether or not we are responsible for our software's failure or defect, we could be required to spend significant time and money in litigation, arbitration or other dispute resolution, and potentially pay significant settlements or damages.

We use a limited number of data centers to deliver our software products. Disruption of service at these facilities could harm our business.

We host our software products and serve all of our customers from eleven third-party data center facilities. We do not control the operation of these facilities. AT&T operates our data centers in Secaucus, New Jersey and the Netherlands; Data Foundry operates our data center in Austin, Texas; iWeb Technologies operates our data center in Montreal, Canada; NTT Communications operates one of our data centers in Slough, United Kingdom and our data center in London, United Kingdom; FireHost operates our other data center in Slough, United Kingdom; Amazon Web Services operates our data centers in Sydney, Australia and Dublin, Ireland; Verizon Business operates our data center in Billerica, Massachusetts; and SunGard operates our data center in Nashville, Tennessee. Our agreements for the use of these data center facilities vary in term length, some being month-to-month and others expiring at various dates from 2016 through 2017. The owners of these facilities have no obligation to continue such arrangements beyond their current terms, which are as short as the current month in the case of month-to-month arrangements, nor are they obligated to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to continue such arrangements or renew these agreements on commercially reasonable terms, we may be required to transfer to new data center facilities and we may incur significant costs in connection with doing so. Any changes in third-party service levels at our data centers or any errors, defects, disruptions or other performance problems with our software products could harm our reputation and damage our business. Interruptions in the availability of our software products might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, cause customers to terminate their subscriptions or harm our renewal rates.

While we take precautions such as data redundancy, back-up and disaster recovery plans to prevent service interruptions, our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, communications failures and similar events. The occurrence of a natural disaster or an act of terrorism, or vandalism or other misconduct, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in the availability of our software products.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. Our internal control over financial reporting constitutes a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America. Under Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, our management is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year and to report on this evaluation in our Annual Report on Form 10-K for the year. In addition, so long as we remain an accelerated filer or a large accelerated filer under the rules of the Securities and Exchange Commission, or the SEC, our independent registered public accounting firm will be required to audit our management's annual evaluation of internal control over financial reporting and report on this audit in our Annual Report on Form 10-K for the year. If we are not able to comply with the requirements of Section 404, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material, the market price of our stock may decline and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities.

The technologies in our software products may be subject to open source licenses, which may restrict how we can use or distribute our software products or require that we release the source code of our software products subject to those licenses.

Certain of our software products incorporate so-called "open source" software, and we may incorporate further open source software into our software products in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to certain conditions, including requirements that we offer our software products that incorporate the open source software for no cost, that we make available the source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our software products that contain the open source software and required to comply with the foregoing conditions.

We provide minimum service-level commitments to many of our customers, and our inability to meet those commitments could result in significant loss of customers, harm to our reputation and costs to us.

Many of our customer agreements currently, and may in the future, require that we meet minimum service level commitments regarding items such as platform availability, invoice processing speed and order processing speed. If we are unable to meet the stated service level commitments under these agreements many of our customers will have the right to terminate their agreements with us and we may be contractually obligated to provide our customers with credits or pay other penalties. If our software products are unavailable for significant periods of time we may lose a substantial number of our customers as a result of these contractual rights, we may suffer harm to our reputation and we may be required to provide our customers with significant credits or pay our customers significant contractual penalties, any of which could harm our business, financial condition, results of operations.

Risks Related to Ownership of Our Common Stock

Insiders have substantial control over us and will be able to influence corporate matters.

As of October 31, 2015, our directors, executive officers and their affiliates beneficially owned, in the aggregate, approximately 12.2% of our outstanding common stock. As a result, these stockholders may be able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. The stock ownership of these stockholders could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our software products could reduce our ability to compete successfully.

We may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per-share value of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our software products;
- continue to expand our research and development and sales and marketing efforts;
- acquire complementary technologies, products or businesses;
- expand our operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

An active trading market for our common stock may not be sustained, and investors may not be able to resell their shares at or above the price at which such shares were purchased.

Although we have listed our common stock on The NASDAQ Global Select Market, an active trading market for our shares may not be sustained. In the absence of an active trading market for our common stock, investors may not be able to sell their common stock at or above the prices at which they acquired their shares or at the time that they would like to sell.

Our stock price may be volatile, and the market price of our common stock may decrease.

The market price of our common stock may be subject to significant fluctuations. Our stock price is volatile, and from July 27, 2011, the first day of trading of our common stock, to October 31, 2015, the trading prices of our stock have ranged from \$6.57 to \$26.05 per share. As a result of this volatility, investors may not be able to sell their common stock at or above the price they paid for it. Some of the factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our software products to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive products or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant products, services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries or both;
- litigation involving our company, our general industry or both;
- additions or departures of key personnel;
- general perception of the future of the CLM market or our software products;
- investors' general perception of us; and
- changes in general economic, industry and market conditions.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

A significant portion of our total outstanding shares may be sold into the public market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. Our outstanding shares of common stock may be freely sold in the public market at any time to the extent permitted by Rules 144 and 701 under the Securities Act of 1933, as amended, which we refer to as the Securities Act, or to the extent such shares have already been registered under the Securities Act and are held by non-affiliates of ours.

In addition, as of October 31, 2015, there were 5,164,370 shares subject to outstanding options and 1,547,755 shares subject to issuance on vesting of outstanding restricted stock units, all of which we have registered under the Securities Act on registration statements on Form S-8. These shares will be able to be freely sold in the public market upon issuance as permitted by any applicable vesting requirements, to the extent applicable. Furthermore, as of October 31, 2015, there were 10,000 shares subject to outstanding warrants. These shares will become eligible for sale in the public market to the extent such warrants are exercised as permitted by any applicable vesting requirements and Rules 144 and 701 under the Securities Act.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they adversely change their recommendations regarding our stock or if others publish or disseminate unfavorable reports or analyses regarding us, our business, our market or our stock, our stock price could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us adversely change their recommendations regarding our stock, or provide relatively more favorable recommendations about our competitors, our stock price would likely decline. If any analyst who covers us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. If others publish or disseminate unfavorable reports or analyses about us, our business, our markets or our stock, our stock price could decline.

Our management will have broad discretion over the use of our cash reserves and might not use such funds in ways that increase the value of your investment.

Our management will have broad discretion to use our cash reserves, if any, and you will be relying on the judgment of our management regarding the application of these funds. Our management might not apply these funds in ways that increase the value of your investment. Our management might not be able to yield a significant return, if any, on any investment of these cash reserves. You will not have the opportunity to influence our decisions on how to use our cash reserves.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation, bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;
- limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

The following table provides information about our repurchases of equity securities during the periods indicated that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share (2)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program (1)(2)</u>
				\$ 26,500,011
July 1, 2015 - July 31, 2015	—	\$ —	—	\$ 26,500,011
August 1, 2015 - August 31, 2015	—	\$ —	—	\$ 26,500,011
September 1, 2015 - September 30, 2015	—	\$ —	—	\$ 26,500,011
Total	—	\$ —	—	\$ 26,500,011

(1) On November 25, 2014, we announced that our board of directors had authorized a share repurchase program under which we may repurchase up to \$30 million of our outstanding common stock on the open market or in privately negotiated transactions. The \$30 million includes \$2.3 million of unused funds from a previous \$20 million share repurchase program announced in 2012.

(2) The Average Price Paid per Share includes broker commissions.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

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

Tangoe, Inc.

Date: November 9, 2015

/s/ Gary R. Martino

Gary R. Martino
Chief Financial Officer

**Certification of Chief Executive Officer
pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934,
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Albert R. Subbloie, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tangoe, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15 d-15(f)), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2015

/s/ Albert R. Subbloie, Jr.

Albert R. Subbloie, Jr.
President, Chief Executive Officer
and Chairman of the Board

**Certification of Chief Financial Officer
pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934,
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gary R. Martino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tangoe, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15 d-15(f)), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2015

/ s/ Gary R. Martino

Gary R. Martino
Chief Financial Officer

**Certification of Chief Executive Officer
pursuant to 18 U.S.C. Section 1350, as adopted
pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report on Form 10-Q of Tangoe, Inc. for the quarterly period ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Albert R. Subbloie, Jr., as Chief Executive Officer of Tangoe, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Tangoe, Inc.

Dated: November 9, 2015

/ s/ Albert R. Subbloie, Jr.

Albert R. Subbloie, Jr.
President, Chief Executive Officer
and Chairman of the Board

**Certification of Chief Financial Officer
pursuant to 18 U.S.C. Section 1350, as adopted
pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report on Form 10-Q of Tangoe, Inc. for the quarterly period ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Gary R. Martino, as Chief Financial Officer of Tangoe, Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Tangoe, Inc.

Dated: November 9, 2015

/ s/ Gary R. Martino

Gary R. Martino
Chief Financial Officer